J&T banka d.d.

Annual report for the year 2020

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

Contents

Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2020 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with accounting legislation applicable to banks in the 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 Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, J&T banka d.d. is referred to as 'the Bank' or 'J&T', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'. Other abbreviations may be used in report are:

F/Ss - financial statements

SFP - statement of financial position

SPL - statement of profit and loss

OCI - other comprehensive income

CC – currency clause

GDP – gross domestic product

IAS – International accounting standards

IFRS - International Financial Reporting Standards

In this report, the abbreviations "HRK thousand", "HRK million" or "EUR thousand" and "EUR million" represent thousands and millions of Croatian kunas and euros.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into Croatian kuna:

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

Macroeconomic environment and banking sector in the Republic of Croatia in 2020

Changes in global environment

Significant changes in consumer and business behaviour caused by the coronavirus pandemic, as well as the accompanying restrictive epidemiological measures, have strongly exacerbated global economic developments. The first nine months of 2020 saw the deepest contraction in the world economy since World War II. The deterioration was not of equal intensity in all parts of the world due to the different epidemiological situation and the different time of introduction of epidemiological measures.

After a sharp decline in the first quarter, the Chinese economy has already recorded a positive annual rate of change in real GDP in the next three months, and during the summer months the recovery accelerated further. On the other hand, the pandemic in the rest of the world, especially the US and the euro area, spread somewhat later and the strongest contraction occurred in the second quarter. The improvement in the epidemiological situation and the lifting of many restrictive measures led to a strong quarterly economic recovery in the third quarter, both in the US and the euro area, but economic activity remained well below pre-crisis levels.

The unprecedented deterioration of economic conditions has resulted in a sharp tightening of money market financing conditions and a sharp decline in the value of leading stock exchange indices.

However, thanks to the strong response of central banks around the world and the extremely expansionary monetary policy, financial markets stabilized very quickly and financing conditions remained relatively favorable, especially if government bond yields are observed. Yield stabilization facilitated a strong fiscal response, which clearly mitigated the social and economic consequences of the pandemic.

After several decades of uninterrupted growth, the Chinese economy fell by 6.8% year-on-year due to the outbreak of the epidemic in the first quarter of 2020, but returned to positive annual growth rates in the second quarter after the lifting of restrictive epidemiological measures. stood at 3.2% and then accelerated further in the third quarter to 4.9%. The recovery of the Chinese economy was strongly contributed by the growth of industrial production and the normalization of activities in the real estate market, especially the sale and construction of residential buildings.

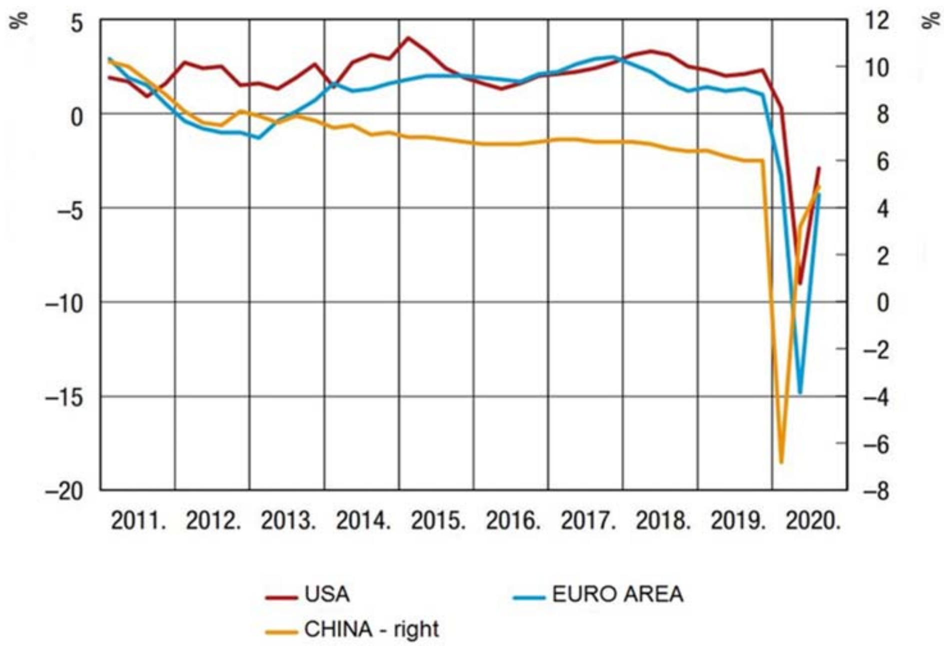
The U.S. economy, after a sharp decline in the second quarter (from 9.0% year-on-year), began to recover markedly in the third quarter. Namely, despite the continuation of the relatively unfavorable epidemiological situation and the large number of new cases during the summer, the US economy recovered strongly in the third quarter, supported by extremely expansive monetary policy and generous fiscal support from the federal budget. Nevertheless, observed on an annual basis, a contraction of 2.9% was recorded in the third quarter as well. So far available early indicators of economic activity for the last months of the year show that the recovery is slowing due to the deteriorating epidemiological situation, growing uncertainty that accompanied the US elections and failure to reach an agreement on a new fiscal package to help the federal budget.

A similar quarterly trend was recorded in the euro area. Namely, after a sharp deterioration of the epidemiological situation in most Member States in the spring of this year, especially Italy, Spain and France, the economic activity of the euro area decreased by 14.8% on an annual basis in the second quarter. The contraction was most pronounced in the countries with the most unfavorable epidemiological picture and a high share of service activities in the creation of national income. However, after the easing of measures, economic activity recovered sharply in the summer months compared to the previous quarter, with GDP levels 4.3% lower in the third quarter than in the same period last year.

In the first nine months of 2020, all the most important Croatian foreign trade partners recorded extremely unfavorable economic trends. This is especially true for trading partners from the euro area, primarily Italy, which is one of the most affected countries in the world by the pandemic. The decline in economic activity of other significant euro area partners such as Slovenia, Austria or Germany was somewhat smaller.

On the other hand, unfavorable trends were less pronounced among trading partners outside the euro area, which are located in the immediate vicinity, especially in Serbia, despite relatively unfavorable epidemiological conditions. After the easing of measures at the global level in late spring this year, the level of severity of restrictive measures that remained in force among Croatia's most important foreign trade partners was slightly lower than the world average until October 2020. The resumption of measures could visibly adversely affect foreign demand for Croatian export products.

Graph 1: Economic growth of selected markets



Source: Eurostat; BEA; NBS; MMF

Changes in Croatia

Economic activity

In 2020, the positive momentum that began in 2015, after six years of recession (2009-2014), came to a halt. Average real GDP growth rate in the period 2015-2019 amounted to 2.9%, primarily driven by the growth of personal consumption, so that in 2019 Croatia finally achieved a level of real GDP above that in 2008. The decline in Croatia's gross domestic product (GDP) in the last quarter of last year slowed down compared to previous quarters, but in the whole of last year the economy fell at a record rate of 8.4 percent due to the corona crisis.

In 2020, the Croatian economy entered with expectations of a slight slowdown compared to the growth rate in 2019. However, due to the spread of the Covid-19 epidemic and accompanying measures to combat it, it became clear during the first quarter that most world economies, including Croatia, to experience a decline in 2020. It remains uncertain how much that decline will amount to.

The crisis caused by the Covid-19 pandemic is a specific economic crisis whose main cause is not disturbances in the economy itself but are a consequence of the so-called external shock. As a result, the crisis is affecting almost all countries globally, both developed and developing countries.

Among the components of GDP, the decline is visible in all categories of GDP, except for government consumption, which recorded a slight increase compared to the same period last year. According to the CBS, household consumption fell by 4.5 percent in the previous quarter compared to the same period a year earlier, a smaller decline than in the previous quarter.

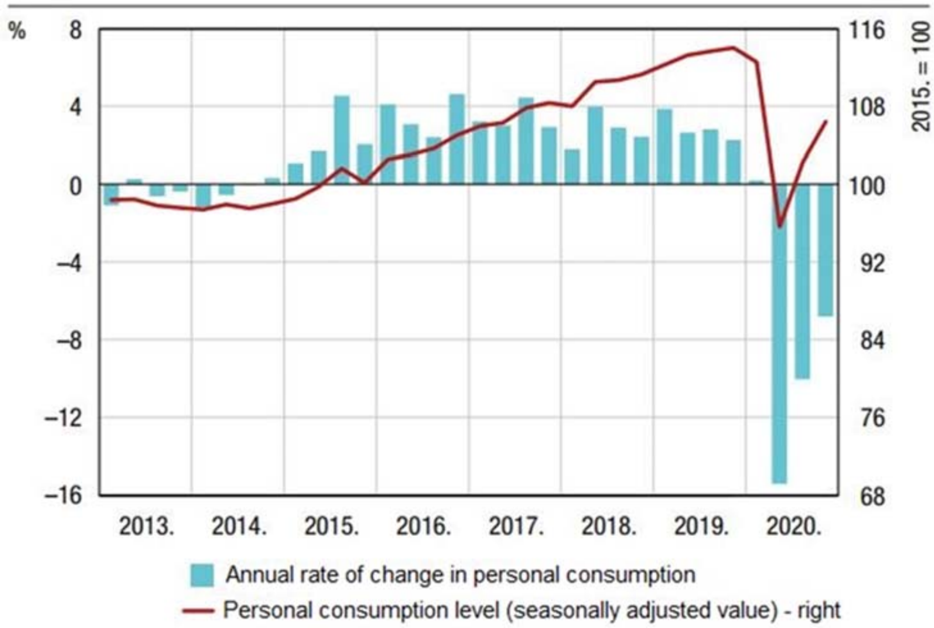
The decline in GDP was mostly due to lower consumption and exports of goods and services (primarily services). Exports of goods and services fell 9.8 percent year-on-year, much slower than in the previous quarter. At the same time, exports of goods rose by 8.6 percent, while exports of services sank by 35 percent. Imports of goods and services fell simultaneously by 7.6 percent year-on-year. At the same time, imports of goods decreased by 3.6 percent and services by 25.9 percent.

To mitigate the effects of the shock of the pandemic during 2020, a number of Government measures were in place to alleviate the financial position of the company, and this has sharply worsened the state of public finances in the short term. Tax and contribution exemptions and support for employees together amounted to 3.7% of GDP by the end of 2020.

Fiscalization data suggest that companies saw a sharp decline in revenue in 2020. Compared to 2019, during 2020 the total amount of fiscalized accounts was lower by about 13%, which could be approximately the same as the decline in operating revenues of this sector. This is slightly more than in the crisis year of 2009, with the fact that in 2020 the decline in revenues was extremely unevenly distributed among industries, with a significantly larger decline in tourism and services.

According to seasonally adjusted data, GDP grew by 2.7 percent in the fourth quarter of last year compared to the previous quarter, while it fell by 7.1 percent on an annual basis. The expected decline of the Croatian economy in 2020 is slightly larger than is the case with most other EU members. The main reason for such assessments is the importance of services and tourism for the overall economic activity in Croatia.

Graph 2: Quarterly GDP



Source: DZS

* Note: Data for the fourth quarter of 2020 refer to the Monthly Indicator of Real Economic Activity of the CNB, estimated on the basis of data published by 29 January 2021

Labor market

The trends in the labor market in the third quarter of 2020 were favorably reflected in the renewed intensification of economic activity, due to the improvement of the epidemiological situation and the accompanying easing of restrictive epidemiological measures. The number of employees at the beginning of the third quarter of 2020 continued to grow at a similar intensity as in June, after their number decreased cumulatively by almost 5% from March to May. In the continuation of the quarter, the dynamics of growth remained, and total employment at the end of September was 1.6% higher (according to seasonally adjusted data) than at the end of the second quarter. The strongest increase in the number of employees was recorded in the accommodation and food service sector, which was previously the most affected.

During October 2020, the intensity of growth in the number of employees accelerated, but total employment was still lower by 1.4% than in the same month last year.

Unemployment continued to decline at the beginning of the third quarter of 2020 at the same pace as in June, after rising from March to May. The decline in unemployment slowed during August and accelerated again in September 2020 when outflows from CES records due to employment increased, and at the end of September the number of unemployed was 5% lower than at the end of the second quarter. The beginning of the fourth quarter of 2020 was marked by a further acceleration of the decline in the number of unemployed, but their number was still at higher levels compared to the period before the crisis.

The administrative unemployment rate (seasonally adjusted data) in the third quarter of 2020 was 9.9% of the workforce (10% in the second quarter).

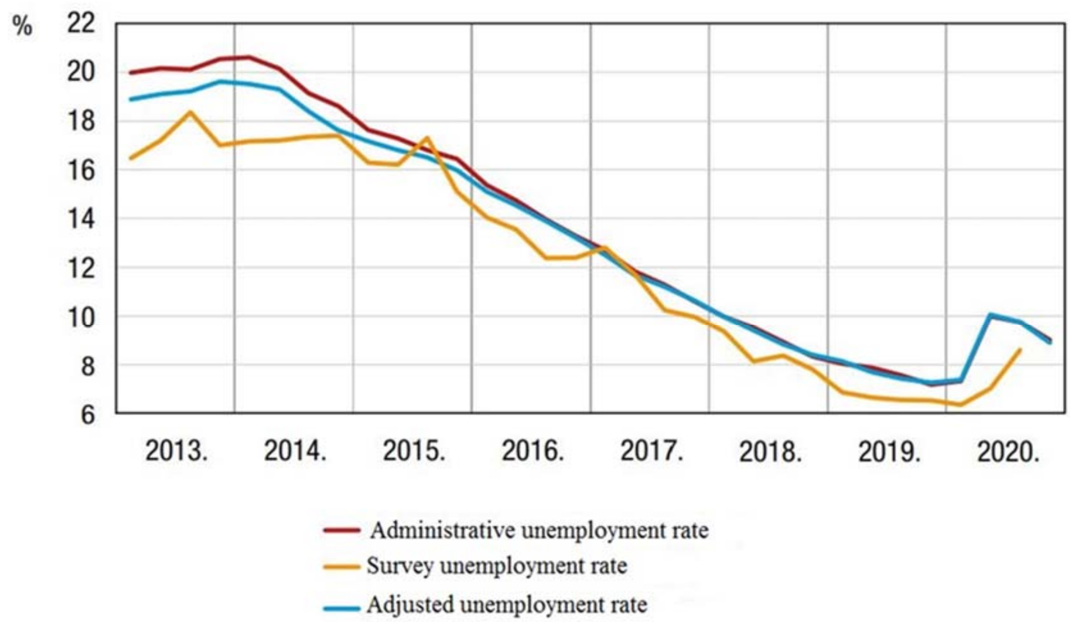
Wage growth, which began in June, continued in the third quarter of 2020, after wages fell during April and May, primarily due to wage cuts in the private sector, which reacted more strongly to the decline in economic activity. The average nominal gross wage at the end of September 2020 was higher by 2.6% compared to June, with a slightly more pronounced increase in wages recorded in the private sector compared to the public one.

In the third quarter of 2020, real wage growth was also recorded, which, in turn, slowed down at the beginning of the fourth quarter.

Unit labor costs in the second quarter of 2020 increased by 15.3% compared to the first quarter, which primarily reflects a sharp decline in labor productivity, and only to a lesser extent an increase in labor costs. The decline in labor productivity is equally strong when productivity is calculated as the ratio of production to the number of working hours (instead of production and the number of employees).

According to the HZMO, the number of employees at the end of December was 1.536 million.

Graph 3: Unemployment rate



Source: DZS (seasonal adjustment) – CNB calculation

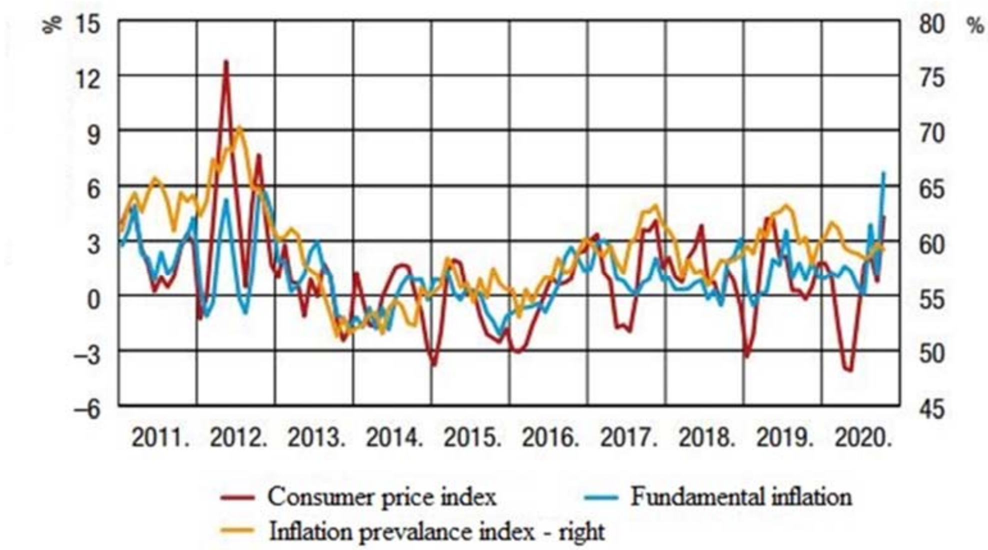
Inflation

At the level of the whole of 2020, the average annual rate of consumer price inflation slowed down to 0.1% (0.8% in 2019), which was largely due to a decrease in the annual rate of change in energy prices, especially of petroleum products. At the same time, the average annual core inflation rate in 2020 remained unchanged at 1.0%. In December 2020, there was an annual decline in consumer prices (-0.7%), which was dominant throughout 2020. In eight of the twelve months, an annual decline in prices was recorded, from April onwards, with the exception of September when prices stagnated.

The annual decrease in prices in December was the strongest in the whole of 2020. Due to price growth in the first quarter (1.4%), the annual average price growth remained in the positive sphere, although at a minimal level (0.1%). The strongest deflationary pressure on the level of consumer prices in 2020 arose from energy prices (-5.3%) or petroleum products, which were influenced by the price of crude oil on the world market, while the strongest inflationary pressure was the price of processed food (+2.2%) and services (1.7%), increase in excise duties, interruptions in supply chains, increase in unit labor costs and costs related to the implementation of epidemiological measures.

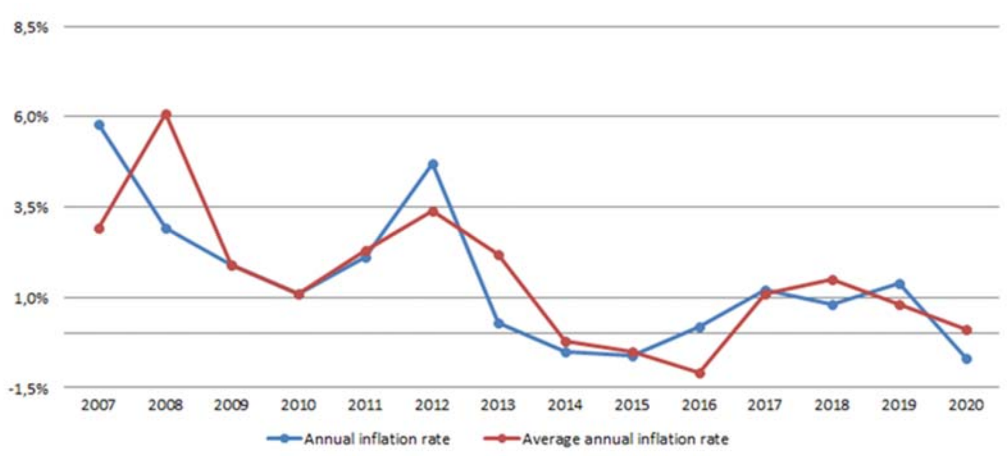
Across the EU, inflation was low during 2020 and the average annual inflation rate measured by the Harmonized Index of Consumer Prices was 0.7%.

Graph 4: Fluctuation indicators of inflation



Source: DZS; calculation CNB

Graph 5: Graph of annual and average annual inflation rates



Source: DZS

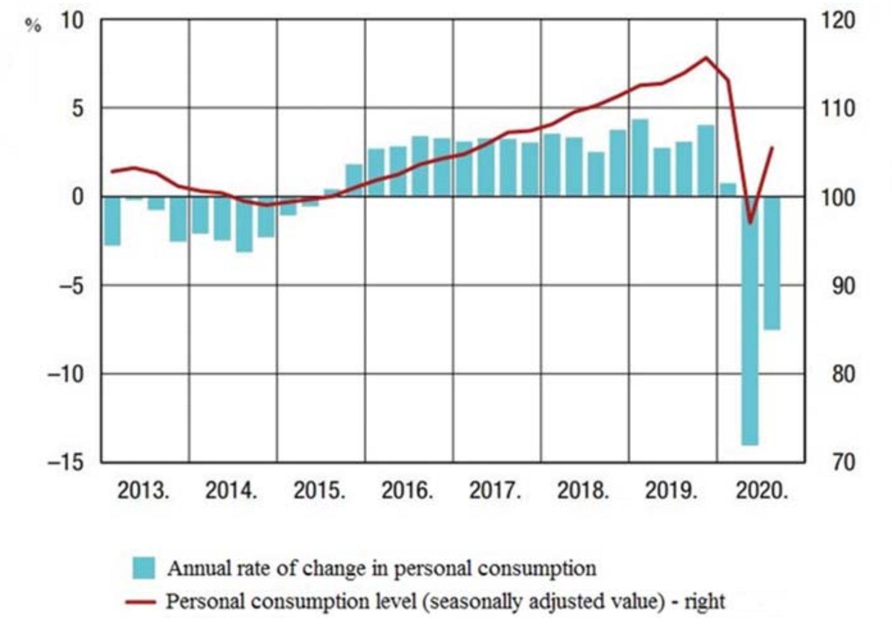
Personal consumption

Consumer confidence survey data suggest a deterioration in household optimism in the last quarter of 2020 compared to the period from July to September, with the decline in expectations on a quarterly basis mostly due to the weakening of consumer optimism in December.

Turnover in retail trade in November last year was only 0.7% lower than in November 2019. For the first eleven months, the decline was 6%. The numbers are not so dramatic if we keep in mind everything that happened in 2020. In the critical month of April, trade fell at a rate of 25.5%. However, even with such a result, retail trade turnover, ie the personal consumption of Croatian citizens, which this turnover reflects, will record a better outcome than expected at the beginning of the pandemic.

Monthly data suggest that the economy continued to recover, but at a much slower pace, which is also associated with a worsening epidemiological situation.

Graph 6: Personal consumption - real value



Source: DZS; CNB Bulletin

Terms of financing and banking sector

A number of economic policy measures aimed at mitigating the effects of the pandemic have delayed the confrontation with potential risks to the resilience of the banking sector, which threaten primarily through credit risk.

Banks' credit risk is additionally expressed through the growth of exposure concentration. The share of the most vulnerable companies in the banks' assets, which sought to finance their liquidity needs, increased, while the less vulnerable companies increased the liquidity surpluses they deposited with banks.

In the retail sector, under the influence of unsecured non-performing cash loans, the share of non-performing loans in total loans increased, while in the case of retail loans, credit risk has not materialized significantly so far. The sharp decline in net income and profits is reminiscent of the strength of the COVID-19 recession, whose impact on banks will be manifested in full force in the coming period. Nevertheless, the capital strength and sustained growth of deposits and loans show that banks are able to support the economy's exit from the crisis.

As expected, the crisis has led to a significant deterioration in banks' business results. The operations of credit institutions in 2020 resulted in a net profit of HRK 2.7 billion, which is 53.1 percent less than the profit realized in 2019, mainly due to the decline in operating income and the growth of value adjustments of financial assets recorded in the books by depreciated cost.

Net interest income decreased by 5.7%, and net income from fees and commissions recorded a larger decline (10.5%), so total net operating income decreased by 9.9% compared to 2019. Banks have responded to the revenue contraction with better cost management, but costs are more rigid than revenues and cannot be reduced at the same pace. As a result, the net result before provisions was reduced by almost 19%.

Credit institutions have increased provisions for expected losses that reflect the potential increase in credit risk due to the pandemic.

With the decline in profits, profitability indicators also declined, with return on assets (ROA) from 1.4 percent to 0.6 percent and return on equity (ROE) from 9.8 percent to 4.4 percent.

According to unaudited data, at the end of last year, the total assets of credit institutions increased compared to 2019 by HRK 31.4 billion or 7.3 percent, to HRK 462.5 billion. Assets increased with most credit institutions, with the largest increase related to liquid assets, mostly deposits with the central bank and loans granted.

The increase in total loans and advances by 9.1 percent was higher than the growth of non-performing loans, which increased by 8.2 percent, which resulted in a slight decrease in the value of the relative loan quality indicator, ie the share of non-performing loans in total loans. The share of non-performing loans (NPLs) at the end of 2020 was 5.4 percent, and at the end of 2019 it was 5.5 percent.

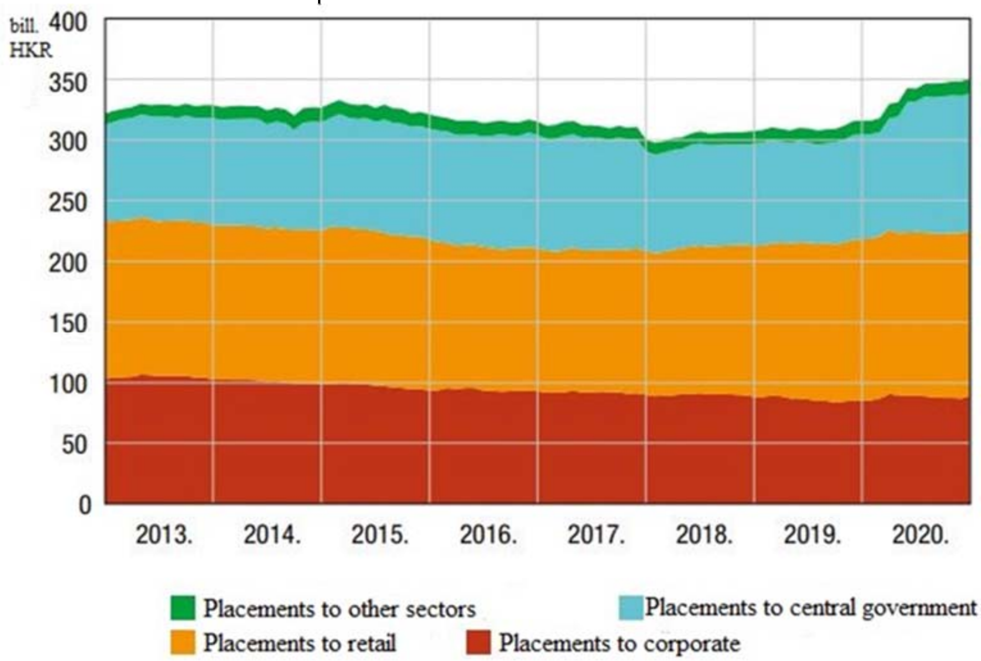
Non-performing loans rose in the retail loan portfolio, in which the share of NPLs increased from 5.8 percent to 7.1 percent. The share of NPLs in the non-financial corporations sector decreased from 13.7 percent to 12.5 percent, primarily due to the sale of non-performing receivables.

The liquidity of the credit institution's system, measured by the liquidity coverage ratio (LCR), remains at a high level, and at the end of December 2020, the LCR was 181.9 percent. All credit institutions met the prescribed minimum liquidity requirements.

A comparison of credit growth rates in EU member states shows that Croatian banks are in the upper halves of the distribution of credit growth rates to retail and companies by country, and interest rates have remained low, as if Croatia has already adopted the euro.

Despite this, Croatian banks are still among the best capitalized banks in the world. The total capital ratio of 24.9% and the entry into the banking union in parallel with the entry into ERM II in July last year guarantee stability, transition through the crisis without earthquakes and the readiness of banks to respond to the increased demand expected in the upcoming crisis phase.

Graph 7: Structure of credit institution placement



Source: CNB Bulletin

Monetary policy

In the second half of 2020, the CNB maintained a high degree of monetary policy expansion. In response to unfavorable economic and financial circumstances caused by the outbreak of the coronavirus pandemic, the CNB adopted a series of monetary policy measures in the first half of the year to preserve the stability of the kuna against the euro, provide sufficient kuna and foreign exchange liquidity and ensure the stability of the government securities market.

Following the stabilization of financial conditions in domestic financial markets, there was no need for additional monetary policy measures during the second half of the year. Excess liquidity continued to increase, which was also due to the action of autonomous factors.

In order to preserve exchange rate stability in times of growing uncertainty about the effects of the pandemic, the CNB intervened strongly in the foreign exchange market, selling a total of EUR 2.7 billion to banks.

Most of the foreign exchange was sold in the second half of March and early April, after which the exchange rate stabilized and no purchases or sales of foreign exchange to banks on the market were held until the end of November. The exchange rate was also calmed by the agreement between the CNB and the European Central Bank in April on the establishment of a swap line.

As for other foreign exchange transactions, the CNB bought 1.7 billion euros net from the Ministry of Finance from the beginning of the year to the end of November, which created 12.7 billion. kuna. The largest part of that was realized in June, when the CNB bought 1.5 billion. EUR. Looking at total foreign exchange transactions, in the first eleven months of 2020, 1.0 billion was sold net. EUR, ie withdrawn 8.0 billion kuna of primary money.

On the other hand, the creation of reserve money in 2020 was contributed by the purchase of securities by the CNB for the first time in March this year to create additional liquidity to normalize the functioning of this part of the financial market and preserve favorable financing conditions for all sectors. From March to June, five auctions were held at which the CNB bought bonds with a total market value of 20.3 billion. kuna. During the second half of the year, there was no need for additional government bond purchases.

As for other monetary policy measures, in 2020 the CNB placed long-term kuna funds on banks by holding auctions of structural operations. The first was conducted in March in the amount of 3.8 billion. HRK, and the second in November in the amount of 0.5 billion. HRK, both for a period of 5 years and with an interest rate of 0.25%. Banks used part of these funds for partial early repayment of existing structural loans, so their balance at the end of November was 2.6 billion. kuna higher than at the beginning of the year. In addition to long-term loans, the CNB also placed short-term kuna funds with banks by maintaining regular weekly operations at a fixed interest rate, which was reduced from 0.3% to 0.05%. Banks' demand was highest in April, when the average amount of placed funds reached 1.1 billion. kuna. However, in the conditions of a markedly large surplus of kuna liquidity, after mid-May 2020, banks' interest in funds offered through this monetary policy instrument was completely absent.

In addition, the reserve requirement rate was kept at 9% during the second half of 2020, after being reduced from 12% to 9% in March, freeing banks from 6.34 billion

Carrying out the purchase of government bonds, structural as well as regular operations on the open market and lowering the reserve requirement rate, the CNB made a total of HRK 29.3 billion available to banks from March 2020 to the end of November. kuna of kuna liquidity, of which almost the entire amount was realized during the period from March to the beginning of July. Thus, the free funds of banks began to record the highest levels so far.

The increase in excess liquidity during the second half of the year was also due to the decrease in the kuna government deposit with the CNB, which reached its lowest level since the end of June at the end of November.

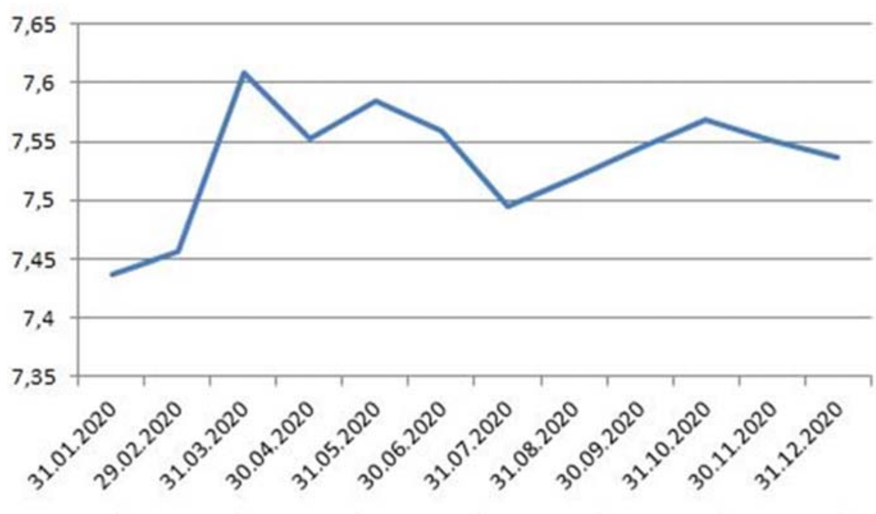
The structure of the central bank's balance sheet changed significantly during the first half of the year due to the growth of claims on domestic banks and the purchase of government bonds. The share of foreign assets, ie international reserves, temporarily decreased due to the sale of foreign currency to banks at the beginning of the pandemic, but as early as June, this share began to increase continuously.

During the second half of the year, the continuous slight increase in international reserves continued, reaching 18.6 billion at the end of November 2020.

After depreciation during March and the first half of April, the exchange rate of the kuna against the euro stabilized. However, during the summer months, expectations regarding the strengthening of the kuna due to better-than-expected tourism indicators influenced its appreciation. Already in the second half of August, the exchange rate began to depreciate slightly due to the tightening of epidemiological measures in emitting markets.

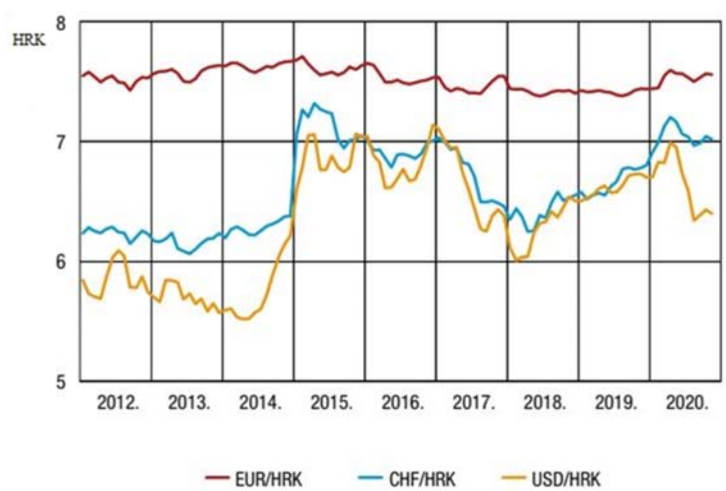
In the current unfavorable economic situation and great uncertainty regarding the dynamics of the economic recovery, the CNB will continue to pursue an expansionary policy of supporting the high liquidity of the monetary system using the available monetary policy instruments. This favors maintaining favorable financing conditions for domestic sectors and supports domestic lending activity.

Graph 8: Average FX rate EUR/HRK in 2020



Source: CNB

Graph 9: Nominal exchange rates of HRK against selected currencies



Source: CNB Bulletin

Management report

J&T banka d.d. is registered as joint-stock company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Međimurska ulica 28, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2020, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank performs most of its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

Total revenue for the Bank in 2020 amounted to HRK 36,104 thousand.

The Bank employs 67 full- time workers.

Loss in 2020 amounted to HRK 16,592 thousand and the Bank did not have any obligation to pay taxes on profits.

In 2020, the Bank did not receive public subsidies.

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organization and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Financial performance

Bank operations in 2020 were marked by continuing business strategies and putting the focus on larger corporate clients. Total share capital amounts to 307,085,400.00 HRK and the ownership share of J&T Bank a.s. Prague remained the same at 82.55%.

In 2020 Bank generated HRK 24.9 million of interest income, while interest expenses amounted to HRK 8.3 million. Net interest income amounted to HRK 16.7 million, which is decrease compared to 2019 by HRK 2.3 million. Part of the reason for this reduction lies in the fact that there has been slight reduction on interest rates on both loans and deposits in 2020, and there was also a decrease in the volume of the Bank's credit portfolio for the collection and repayment from customers outside the Bank's strategy.

Portfolio of loans and advances to customers on 31 December 2020 and 31 December 2019 amounted to HRK 434.2 million and HRK 383.1 million, respectively.

Securities portfolio at 31 December 2020 amounted to HRK 291.1 million and was HRK 38.3 million lower than the end of the previous year.

Net fee and commission income in 2020 amounted to HRK 4.5 million (in 2019. HRK 8.5 million).

Administrative costs and depreciation amounted to HRK 18.4 million, HRK 1.3 million lower compared with the previous year as a result of the active management of the Banks expenses.

The Bank records impairment losses of loans to customers in the net amount of HRK 2.9 million, while release of impairment last year amounted to HRK 1.3 million. Loss for the current year after the value adjustment and release of temporary tax differences amounts to HRK 16,592 million (the same period last year profit was HRK 2.017 million).

The most significant share of the funding structure of the Bank comprise term deposits which amounted to HRK 574.6 million at 31 December 2020 and comprise 54.9% of total sources of funding, while the share capital and reserves of the Bank as at 31 December 2020 amounts to HRK 114.1 million and comprise 10.9% of total sources of funding.

As at 31 December 2020 the Bank's total assets amounted to HRK 1,046.6 million (HRK 1,055.6 million at 31 December 2019).

Events after the reporting date

Form 1st January 2021 the Bank changed the address of the headquarters from Aleja kralja Zvonimira 1, Varaždin, to Međimurska ulica 28, Varaždin.

Retail sector

In 2020. Retail banking was performed through 2 branches on domestic market (Varaždin and Zagreb) and on German market in cooperation with Deposit Solutions partner (before: Savedo Gmbh).

The primary focus of basic and additional activities in the retail segment is on managing of existing portfolio of the consumer loans, ie, reducing the cost of portfolio bookings and improving the customer placement and monitoring activities. Accordingly, in 2020, gross overdue receivables of retail credit placement compared to 2019 decreased by 35% (2019 HRK 4.1 mill; 2020 HRK 2.7 mill), while the cost of gross provisions decreased by 30% (2019 HRK -4.2 mill; 2020 HRK -2.9 mill).

In connection with the COVID-19 pandemic, as well as the consequences of devastating earthquakes in 2020 with epicentres in Zagreb and Sisačko-moslavačkoj counties, the Bank adopted the Measures to facilitate repayment of consumer loan liabilities in accordance with Government Measures of 18 March 2020, the Guidelines of the European Banking Authority EBA, and the relevant circulars of the Croatian National Bank.

The Bank offered this Measure to all consumers - loan users, who are not able to regularly settle financial obligations on loans due to the negative effects of the COVID-19 epidemic and due to consequences of earthquakes.

The total amount of approved moratoriums, under this Measure, amounts to HRK 4.9 million.

The Bank did not approve new consumer loans during 2020, which is the continuity of non-offering (providing) new consumer lending services, since January 2018.

In line with the strategy of abandoning consumer lending, the retail credit portfolio, in 2020.,is further decreased by HRK 16.9 million, or 36%.

Variable interest rates on existing retail loans has followed decrease of NRS (National Reference Rate - 6M NRS1) in 2020., all in-line with the Bank's Principles for Determining Variable Interest Rates on Retail Loans. In 2020 value of 6M NRS1 has decreased by 0.11 pp (2020./IV. 0.15% - 2019./IV. 0.26%) pp for HRK loans and 0.09 pp (2020./IV. 0.12% - 2019./IV. 0.21%) pp for EUR loans.

The focus of deposit portfolio management is to maintain high-quality sources of bank liquidity, optimize deposit structure and interest costs. As a result of the continued reduction of interest rates on the ploughed savings of citizens with the aim of aligning market trends throughout 2020. the average interest rate on citizens' deposits has been reduced by 0.41 pp for deposits in kuna, 0.33 pp for deposits in Euros, while the volume of deposits decreased by HRK 83.1 million or 13.6%. In the 4th quarter of 2020, the Bank made a decision to stop contracting new long-term retail deposits and redirect the focus of saving operations to short-term sources in this segment.

Regarding to the term deposits portfolio in cooperation with partner Deposit Solutions, the average interest rate was increased for 0.13 pp, while the volume of deposits under this channel was decreased by EUR 400.000 or 15% in 2020, as a result of the termination of collecting new deposits and delisting the bank's interest rates from Savedo platform throughout 2020. The exit strategy in this segment has culminated with the contract cancellation at the end of 2020., but with the obligation to continue to managing the existing portfolio until expiration.

In the retail card business segment, in 2020 the Bank primarily was focused to adjust the card operations to the recommendations of the Croatian Civil Protection Headquarters and the Croatian Institute of Public Health in epidemic conditions and according to that the maximum individual amount of contactless electronic payment transaction with debit "contactless" cards at POS terminal, without reliable client authentication (without using a PIN), has been increased from the current HRK 100.00 to HRK 250.00, ie in the period of high epidemic the calculation of cash withdrawal fees has been suspended at all ATMs outside MBNet network in the Republic of Croatia, for all cards issued to citizens.

Corporate sector

Despite the extraordinary situation in the economy caused by the Covid-19 pandemic, the Corporate banking portfolio achieve a gross growth of 33% in 2020, which is 6.5% over planned. In addition to regular loans maturity, a significant part of loans was repaid before maturity, which was also compensated by new loan placements within Bank's corporate strategy, and which contributes to higher quality of the loan portfolio structure in 2020 compared to 2019.

In addition to significant engagement in sales activities and the structuring and implementation of new placements, to existing clients whose business was affected by the consequences of the pandemic were granted moratoriums for a period of up to 12 months. According to the Covid-moratorium agreements, it was established mechanism for quarterly monitoring of their business, with the possibility to return the loan in repayment before the maturity of the moratorium, depending on creditworthiness.

In January 2020, the Register of beneficial owners was established at national level, which enabled the users of the Registry to transparently monitor the beneficial owners of legal entities. In the area of Anti money laundering and terrorist financing, the Corporate banking department continuously works in-depth analyzes, monitors transactions, and reports all suspicious and disputable transactions to responsible persons, according to the valid procedures and legislation.

With intention to organizational optimization, in the last quarter of 2020, the Investment Banking Department was merged to the Corporate banking department.

In order to increase placements and achieve the planned portfolio volume in following year, the Corporate banking department already prepares several loans in significant amounts. Considering that those are deeply structured loans, the process of processing, structuring, approval and realization takes several months, and the realization of which is expected in the first half of 2021.

Due to regulatory restrictions, in financing loans of significant amounts is required participation other financial institutions, mostly members of the J&T Group. Partial contribution to revenue growth is expected through approvals of syndicated loans. Consequently, in 2021 is expected growth in interest income, but also growth of income from services provided by syndicated and participated loans.

The growth strategy of the portfolio in the Corporate Banking Department continues in the planned volume, and the first significant results are expected in the first half of 2021.

Treasury activities

The year 2020 was marked by the impact of the global COVID 19 disease pandemic in all market segments. Accordingly, in 2020, the growth trends from previous years did not continue on the Croatian money market. The country's GDP after growth in 2019, recorded a decline (approximately 10% after the third quarter). The monetary policy of the CNB, with the stimulus of negative inflation rates, remained expansive. Central bank continued to increase HRK liquidity announcing the regular repo auction showing that it will support credit activity in domestic currency. Adding to that was aggressively loose ECB monetary policy so it is clear that money markets interest rates where under strong deflationary influences both in Eurozone and Croatia.

The liquidity of the domestic and banking system of the Eurozone remained at a high level, and an additional decline in interest rates was recorded. Thus, the 6-month EURIBOR rate dropped from -0.324% from the beginning of the year to -0.526% on the last day of the year. The trend of a slow decline in the cost of bank financing in Croatia both in kuna and in other currencies continued, so that HNB's 12-month National Reference Rate of the Average Cost of Banking Sector Financing (NRS) for kuna fell to 0.14% in the third quarter, and for euros it was also 0.14%.

The securities market was strongly affected by the global pandemic of the disease COVID 19, and there was a decrease in prices, ie an increase in yields. Trading volume was also reduced to non-trading levels in the second quarter of 2020. By the end of the year, with extensive measures by global central banks and hopes of controlling the pandemic, yields are slowly returning to pre-COVID 19 levels and the market is reactivated. The yield on the longest domestic government bond with a currency clause in euros (2040), which was issued with a yield of 1.28% with a lot of volatility during the year, ended the year at 1.421%, while on the longest kuna bond (2032) the yield with 1.20% at the beginning of the year fell to 1.06% at the end of 2020.

As for the EUR / HRK exchange rate, the kuna weakened against the EUR in 2020. After a turbulent period after the outbreak of the pandemic, the second part of the year brought significantly calmer trends. In the post-tourist period, the exchange rate ranged mainly from 7.55 to 7.60, and the average exchange rate in 2020 was at the level of 7.53, while in 2019 it was 7.41.

Within the aforementioned macro framework, the Bank went through the year maintaining a high share of liquid assets in its balance sheet at the same time reducing its liabilities, and at the same time the average interest cost of its liabilities.

In 2020, the Bank realized securities trading income in the amount of HRK 68 thousand, while in 2019 it amounted to HRK 7 million. The decrease in realized profit was due to the absence of purchase and sale of securities. Foreign exchange income amounted to HRK 2.4 million, which is HRK 1.5 million more than in 2019.

Employees and organizational structure

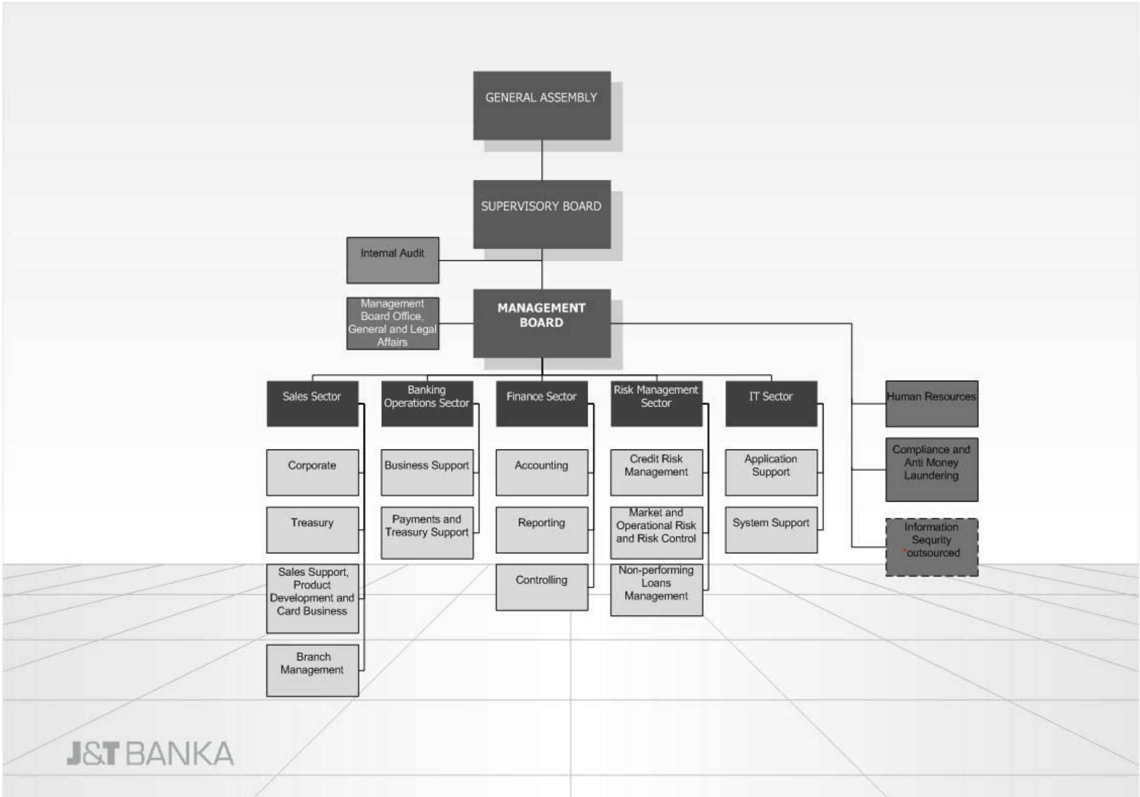
During 2020, Bank's business took place in Bank's headquarter in Varaždin, branches in Zagreb and Varaždin and offices in Zagreb and Slavonski Brod.

In 2020, the Bank had minor reorganization, in Sales Sector, where the Investment Banking Department was abolished, and its activities was transferred to Corporate.

On December 31 2020 Bank had 67 employees.

During 2020, the Bank continued to track and developed the employee's performance system as a one way of motivating employees, but due to coronavirus and recommendation of the CNB on nonpayment of the variable compensations, the Bank will not pay any for the 2020. Special focus was placed on payments related with costumer protection.

Organizational scheme



IT development

OLBIS (Online Bank Information System) is an integral bank information system, which now consolidates all application modules of 'core' system, as well as full regulatory reporting.

During 2020 most activities regarding application development were focused on adaptation of OLBIS system in view of the work circumstances in terms of coronavirus pandemic, and fulfilling legislative and regulatory demands and reports. At the end of the year, changes in forms and documents were implemented due to a change in the Bank's address.

During 2020, several significant modules were implemented:

- HROK changes
- EIR on current accounts
- QR code on fiscalized accounts
- JRR – upgrades for additional persons
- Black lists - processing automation
- HNB reporting – Covid 19 report, ECL questionnaire, MK report, COFI, COREP I FINREP ver. 2.9

In the infrastructure segment, most important was the upgrade of the central firewall, the procurement of the necessary client equipment and enabling work from home for employees (related to the Covid 19 pandemic).

At the end of the year, related to the relocation of the Bank's headquarters, the primary data center was moved to another location (Databox in Zagreb), the complete network infrastructure was modified and all remaining client infrastructure was moved to new location. All preparations for the relocation of the branch to a new location have been made (planned for January 2021).

Parallel to before mentioned activities, continuous upgrading of system support in information security segment was carried out, and at the end of the year all outdated and defective IT equipment has been written off.

Internal controls system and internal audit

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

In accordance with the Credit Institutions Act and the Decision on governance arrangements, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions independent of the business processes and activities in which risk occurs, i.e. which the functions monitor and supervise. These are:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: identifying and assessing the compliance risk to which the credit institution is or might be exposed; advising the management board and other responsible persons on the implementation of relevant laws, standards and rules, including informing them on developments in these areas; assessing the effects that changes in relevant regulations will have on the operation of a credit institution; verifying compliance of new products or new procedures with relevant regulations as well as amendments to such regulations in cooperation with the risk control function; reporting on compliance risk to the management board, the supervisory board and the relevant supervisory board committee, and other relevant persons; cooperating and exchanging information with the risk control function in relation to compliance risk and its management; and providing advice as regards the preparation of training programmes related to compliance.

The internal audit function, as part of the internal controls system, assesses the following: appropriateness of governance arrangements; adequacy of existing policies and of their compliance with regulations and other regulatory requirements and with the Risk appetite and Risk management strategy of the Bank; correctness and effectiveness of implementation of the procedures referred to in Article 24, paragraph (1) of this Decision and the compliance of these procedures with the applicable laws and regulations and with decisions of the Bank's Management board and the Supervisory board; adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the Risk control and Compliance functions; accuracy and reliability of the accounting records system and financial statements; outsourced activities; strategies and procedures in place to assess the adequacy of internal capital and internal liquidity; reliability of the internal and external reporting systems and timeliness and accuracy of the reports prescribed in the Credit Institutions Act, regulations adopted under that Act and other regulations; methods of asset protection; data collection systems and the validity of information that is publicly disclosed in accordance with Title XIV of the Credit Institutions Act, Regulation (EU) No 575/2013, and other regulations; other assessments as prescribed by the Credit Institutions Act, regulations adopted under that Act, Regulation (EU) No 575/2013, the relevant technical standards and other regulations.

Each control function prepares reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Financial reporting control system

The Bank has ensured the internal control systems of the accounting system and financial reporting, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision-making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

Research and development

The Bank capitalizes intangible assets. Intangible assets include internally developed software of total capitalised value of HRK 19.6 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets.

Information relating to treasury shares repurchase

The Bank has 590,338 treasury shares as at 31 December 2020.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

Since the entry of J&T Bank into the Bank's ownership structure, the business strategy is based on the implementation of the successful and long-standing banking experience of J&T Bank in the Czech Republic, Slovakia and in Russia, also in Croatia, is J&T Bank d.d.. This strategy adapts to the needs of the Croatian market to meet all legal requirements, but also the specifics of the market.

The Group boasts extensive experience in a wide range of services, ranging from retail banking, through private to corporate banking, where J&T Bank d.d. the focus was on corporate banking, while private banking did not take root in Croatia, and it was decided to continue with retail banking, but exclusively in the form of passive operations (collecting deposits) and not active ones (lending). The Bank has suspended retail banking activities in terms of lending to retail (households) through any form of consumer lending, but will continue to be present in the segment of collecting retail deposits as one of the most important sources of financing, if not the most important and stable.

In the coming period in the field of collecting deposits from retail clients, the Bank's strategy plans to reflect that of the parent, which is based on doing business with clients with significant financial assets, and for this purpose will develop optimal and individual combination of financial products and services business practice and experience of the J&T Group. The plan is to have a smaller number of branches in which the Bank's employees will have a direct relationship with clients in the target parts of the country.

Given the long-term negative operations of the Bank until 2017, the strategic concept has changed, and the main pillars of the Bank's market repositioning and its own internal restructuring, and ultimately achieving a positive result in 2018 and 2019, were as follows:

- focusing on the corporate market segment, primarily investment banking, project financing and financing of real estate projects, and other activities with which the J&T Group has experience,
- creating opportunities for financing placements whose required amount of credit financing exceeds the capital possibilities of the Bank, by including other members of the Group (primarily the parent company) in the financing, through syndicated loans,
- individualized approach to the client and creation of banking products according to the client's needs,
- finding solutions for the client - the so-called "customery intimacy" approach - spending a significant amount of time with clients to understand their needs and create financial solutions, without making solutions with which both parties are not satisfied,
- healthy portfolio growth (additional tools and criteria were introduced when approving placements in order to ensure its quality and adequate diversification along with portfolio growth),
- improvement of the credit risk management process within the Bank, ie establishment of stronger business risk control mechanisms, related to asset growth,
- control of operating costs, after the successful restructuring through the reduction of the same, and given the change in strategy and reduction of the number of employees,
- constant training and education of employees which in the form of internal education by which knowledge is transferred from one organizational unit / person to another, as well as to encourage participation in quality external education,
- continuing to address the remaining non-performing portfolio (NPL) inherited from history (and consequently risk costs), which includes not only NPL placements, but also foreclosed assets, which a few years ago represented a significant burden on the Bank's operations,
- giving a significant focus in agency business, where the Bank is able to earn from other members of the Group a significant amount of fees for the management of placements that are fully or largely financed by these members (mostly placements related to the financing of foreign investors for projects in Croatia).

Ultimately, with a new business strategy or the creation of a new portfolio, the Bank creates the foundations or prerequisites to become profitable in the long period, either as a Bank or a subsidiary.

The construction of the Bank's new public image has been supported in recent years by direct communication with the market, and this process has profiled the Bank, from the Bank where most placements were to clients based in the vicinity of the Bank's headquarters, to the Bank, which will continue to operate more actively on the territory of the entire Republic of Croatia. As this business will expand territorially, the focus of these activities will expand from region to region.

The mission is to build a strong and stable bank on the Croatian market aimed at prosperous clients who are able to provide their own funds, as well as the contribution of external bodies (eg grants, subordinated loans to third parties, etc.), when financing certain projects. Primarily, the Bank's clients should be reputable, unquestionable well-known and verified entrepreneurs with experience in the financed activity.

The Bank's target clients should be clients who invest a significant portion of their equity or assets in projects that require partial financing from the Bank. Target clients will also be those who are able to include third parts such as HBOR, EU funds with grants in the risk-taking structure for a particular project, etc. Through the use of these risk dispersion mechanisms on several parties / entities, the Bank achieves credit reduction the risk it assumes through the approval of a certain placement, which also achieves a better structure of the Bank's portfolio.

Approximately one third of the Bank's total credit exposure currently relates to the financing of foreign clients, who are also clients of the J&T Group, but the approval of such placements was preceded by primary and secondary collection risk analysis, as well as all other placements that came to the Bank through other sales channels. , taking into account, of course, the specifics of such clients in terms of their business activities, compared to clients financed by the Bank to a greater extent (due to which risky products granted to these clients deviate from the usual terms of placement in the form of collateral, repayment methods, etc.).

When forming the credit risk strategy, the Bank will continue to be guided by the goal of adequate portfolio diversification, which will be addressed by continuing the minimum annual update of introduced internal limits for certain types of products, activities and all other common risk factors, all with the aim of managing and controlling concentration risk.

The collection of deposits and share capital is the basis for the possibility of fulfilling the aforementioned mission, while maintaining capital requirements, ie the capital adequacy ratio at the minimum prescribed level. J&T Bank, a.s. has in the previous period provided sufficient capital that met all the legal criteria necessary for the further development of the Bank.

Depending on price movements on the capital market, the Bank will continue to actively adjust its pricing policy, ie combine the structure of sources from its depositors (retail and companies), and other sources, which primarily refers to the possibility of financing asset growth through credit lines by owner.

Also, the owners with their letter of support expressed in case of further needs (and primarily due to the growth of the Bank's portfolio) the possibility of further capital strengthening of the Bank. However, the ultimate goal of the owner is to operate on the Croatian market through a branch of J&T banka a.s., but at this time the owner has not made a decision on how to implement it.

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank’s risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank’s policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limits. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilization. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank’s activities and in the management of its positions. The Bank has access to different sources of funding. Funds are collected through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilization is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature, or their interest rates change at different points in time or in different amounts.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processess. The organizational model of the operational risk management process is conceived at the level of centralized and decentralized functions of operational risk management. It is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or more precisely, to implement control mechanisms, improve business processes and harmonize with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank has provided appropriate risk management for risk management, information system risk, risk model, risk to project management, risk management related to outsourcing, risk management compliance, business changes, including business risks, new products, activities, processes and systems, significant inherent risks in existing products, activities, processes and systems, and business continuity management. The Bank has provided an appropriate system for preventing money laundering and financing of terrorism.

Policies for managing financial risk are described in detail in Notes to the Annual Report for the year 2020.

For and on behalf of J&T banka d.d. Varaždin:

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Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

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Petar Rajković, Member of the Management Board

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

The Management Board is responsible for preparation of financial statements for each financial year which fairly present, in all material respect, the financial position of J&T banka d.d. ("the Bank") and its operation and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for a taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for submission of its annual financial statements to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020).

The financial statements set out on pages 32 to 118 as well as supplementary schedules for the Croatian National Bank, set out on pages 119 to 126 and reconciliation, set out on pages 127 to 135 were authorised by the Management Board on 31 March 2021 for issue to the Supervisory Board and are signed bellow to signify this.

The Management Board is also responsible for the preparation and content of the Management Report as required by the Croatian Accounting Law, and for other information which comprises the Introduction, the Macroeconomic Environment and Banking Sector in the Republic of Croatia in 2020 set out on pages 1 to 11 and the Management Report presented on pages 12 to 22 and were approved by the Management Board on 31 March 2021, and are signed bellow.

For and on behalf of J&T banka d.d.:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.
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Petar Rajković, Member of the Management Board

Independent Auditors’ report to the shareholders of J&T banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of J&T banka d.d. (“the Bank”), which comprise the statement of financial position of the Bank as at 31 December 2020, and the statements of comprehensive income, cash flows and changes in equity of the Bank for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as “the financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for credit institutions in Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans and advances to customers

As at 31 December 2020, gross loans and advances to customers: HRK 472,424 thousand, related impairment allowance: HRK 44,098 thousand and impairment loss recognised in the income statement: HRK 4,466 thousand (31 December 2019, gross loans and advances to customers: HRK 423,598 thousand, impairment allowance: HRK 41,958 thousand and reversal of impairment loss recognised in the income statement: HRK 1,312 thousand).

Refer to page 47 (Significant accounting policies), page 89 (Significant accounting estimates and judgements), page 55 (credit risk section) and page 96 (note 10 Loans and advances to customers).

Key audit matter	How our audit addressed the matter
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the loans and advances to customers at the reporting date. We focused on this area as the determination of the amount of such impairment losses requires complex and significant judgment from the Management Board over the amount of such impairment. The impairment allowances for the majority of the performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) (together "collective impairment allowance") are determined by modelling techniques relying on key parameters such as the probability of default (PD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information. ECLs for non-performing exposures (Stage 3) are generally determined on an individual basis by means of a discounted cash flow analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from the related collateral and minimum period for collateral disposal. Considered is the Bank's own historical experience and specific guidance of the Croatian National Bank (CNB) regarding minimum haircuts to be applied on the estimated value of collateral. COVID-19 global pandemic significantly impacted management's determination of the ECL and required heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate of ECL provision in future periods.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment methodology and assessing its compliance with the relevant requirements of the financial reporting standards and of the CNB rules. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors; • Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of significant increase in credit risk and events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due and calculation of the overall ECL estimate; • Evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic. • For loss allowances calculated on a collective basis: — Assessing whether the definition of significant increase in credit risk and an event of default are appropriate and whether the staging criteria of the relevant financial reporting standards were consistently applied; — Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of comparison to publicly available information and corroborating inquiries of the Management Board; — Challenging the collective LGD and PD parameters used by the Bank; — Assessing whether the minimum impairment allowance requirements as prescribed by the CNB have been met.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans and advances to customers (continued)

Key audit matter	How our audit addressed the matter
For the above reasons, coupled with the need to consider the effects of the COVID-19 pandemic (discussed in Note 39) on the Bank's business environment and the measurement of ECLs, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.	• For impairment allowances calculated individually, for a risk-based sample of loans and advances: — assessing the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2020, with focus on debtors from the economic sectors most affected by the effects of the COVID-19 pandemic, by reference to the loan files and through inquiries of the risk management personnel; — for individually calculated LGD, challenging key assumptions applied in the Management Board's estimates of expected future cash flows, with the assistance from our own valuation specialist, by comparing the value of collateral used by the Bank with that assessed by us, and by comparing EBITDA used by the Bank with clients' historical EBITDA; — for those exposures where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation such as discount rates, collateral values and realization period by reference to loan files and market rates or by performing respective independent recalculations, assisted by our own valuation specialist, where relevant. • For the whole portfolio of non-performing unsecured exposures, testing whether the Bank applied internally prescribed loss rates based on days in arrears and whether those are in line with the CNB requirements; • Assessing the overall reasonableness of the impairment allowances, including the loans provision coverage development, by benchmarking them against publicly available industry data. • Assessing adequacy of the Bank's ECL-related disclosures against the requirements of the relevant financial reporting standards.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Going concern considerations related to COVID-19

Refer to page 39 (Basis of preparation) and page 117 which specifically addressed the uncertainties related to the COVID 19 outbreak

Key audit matter	How our audit addressed the matter
The Bank's financial statements are prepared on a going concern basis. In 2020, the Bank reported a net loss in the amount of HRK 16,592 thousand (2019: net profit of HRK 2,017 thousand), and as at 31 December 2020 had accumulated losses of HRK 218,492 thousand (31 December 2019: accumulated losses of HRK 201,900 thousand). Due to the losses reported since 2014 through 2018, the Bank has received several capital injections from the majority shareholder in order to maintain its capital adequacy ratio at least at the minimum level required by the CNB. As disclosed in Note 4.1.5, the Bank's capital Tier 1 adequacy ratio as at 31 December 2020 amounted to 15.91%. Although the ratio is above the CNB's minimum prescribed level, potential future losses without adequate capital support may erode the capital base. In addition, as discussed in Note 39, the outbreak of the COVID-19 pandemic and the measures adopted by the government of Croatia to mitigate the pandemic's spread, have sharply curtailed economic activity, resulting in declines in GDP and has raised further uncertainty with regards to the timing and extent of recovery. As a consequence, the Bank expects that the circumstances may result in higher level of defaults and decrease in interest income, with effects on the Bank's liquidity and capital adequacy. In the wake of the above facts and circumstances, the Management Board performed an assessment of whether the Bank would have sufficient resources and adequate capital to continue as a going concern for a period of at least 12 months from the reporting date. The Bank's going concern assessment was based on analysis of profit and loss forecasts, as well as liquidity projections. The preparation thereof incorporated a number of complex assumptions and required the Management Board to apply significant judgment. As part of the assessment, the Bank also considered a number of actions aimed at alleviating the potential disruption to its business and liquidity position, such as CNB and Croatian Government measures. The Management Board concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Note 2 f) to the financial statements further explains how the judgment was formed by the Management Board.	Our audit procedures in this area included, among others: • Inspecting the Management Board's assessment of the going concern basis of accounting, including their evaluation of the business/operating and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating inquiries of the Bank's Management Board; • Analysing the Bank's capital adequacy position (in particular, the minimum capital requirement), inquiring of the Management Board regarding their alternative plans for future actions in relation to the going concern assessment; • Comparing the Bank's profit and loss and cash flows forecasts for the current and previous years to the current year's outcomes to assess the quality of the Management Board's forecasting process; • Evaluating the Bank's analysis of COVID-19-related sources of risk for the Bank's business and financial resources, including potential negative effect of the spread of COVID-19 on Bank's credit portfolio, as compared with our own understanding of the risks. We considered Management Board's plans to take action to mitigate the risks; • Considering the above procedures, challenging the Bank's financial performance and cash flows forecasts provided to us in support of the management's use of the going concern basis of accounting, by assessing the planned measures to be implemented by the Bank; specifically challenging the key assumptions and judgements with most significant impact on these forecasts, including, among others: — forecast of interest and similar income; — expected loan impairment losses; — capital adequacy position. • Performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment; • Evaluating the appropriateness of Bank's disclosures in respect of the going concern assessment, subsequent events and any related uncertainties in the financial statements.

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Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Going concern considerations related to COVID-19 (continued)

Key audit matter	How our audit addressed the matter
The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of the financial statements its effects are subject to significant levels of uncertainty. The Bank's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Management Board's plans for future actions and their financial impact.	

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises of the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2020, and the Management Report included in the Annual Report of the Bank, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 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 Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2020, and the Management Report. We have nothing to report in this respect.

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

Management is responsible for the preparation of the financial statements which are presented fairly, in all material respects in accordance with statutory accounting requirements for credit institutions in Croatia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors’ Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 controls that we identify during our audit.

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

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/20), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2020, and of the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Schedules are set out on pages 119 to 126, and the Reconciliation on pages 127 to 135. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements set out on pages 32 to 118 on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 29 June 2020 to audit the financial statements of J&T banka d.d. for the year ended 31 December 2020. Our total uninterrupted period of engagement is 5 years, covering the periods from 1 January 2016 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 31 March 2021;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
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Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

31 March 2021

Katarina Kecko
Director, Croatian Certified Auditor

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Statement of financial position as at 31 December 2020

[HRK'000]	Notes	31 December 2019	31 December 2020
ASSETS			
Amounts with the Croatian National Bank	6	149,319	148,658
Cash and accounts with other banks	7	143,878	122,015
Placements with other banks	8	467	477
Financial assets - securities	9	329,400	291,139
Loans and advances to customers	10	383,098	434,179
Property and equipment	11	15,623	8,137
Intangible assets	12	10,418	8,480
Other assets	13	23,425	33,496
TOTAL ASSETS		**1,055,628**	**1,046,581**
LIABILITIES			
Deposits from customers	14	830,700	843,619
Deposits and borrowings from banks	15	10,511	8,054
Subordinated debt	16	46,765	47,104
Provisions for liabilities and charges	17	2,838	1,060
Other liabilities	18	33,833	32,191
Deferred tax liability	29 c)	357	446
TOTAL LIABILITIES		**925,004**	**932,474**
EQUITY			
Share capital	19.1	307,085	307,085
Share premium	19.2	21,435	21,435
Treasury shares	19.4	(2,202)	(2,202)
Other reserves	19.3	3,792	3,792
Fair value reserve	19.5	2,414	2,489
Accumulated loss	19.6	(201,900)	(218,492)
TOTAL EQUITY		**130,624**	**114,107**
TOTAL LIABILITIES AND EQUITY		**1,055,628**	**1,046,581**

The significant accounting policies and other notes on pages 37 to 118 form an integral part of these financial statements.

Income statement for 2020

[HRK'000]	Notes	2019	2020
Interest income recognized by using effective interest method	20	32,142	24,976
Interest and similar charges	21	(13,226)	(8,311)
Net interest income		**18,916**	**16,665**
Fee and commission income	22	9,350	5,249
Fee and commission expense	23	(831)	(777)
Net fee and commission income		**8,519**	**4,472**
Net gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	7,034	68
Net foreign exchange gains and FX trading income	25	1,977	2,401
Other income	26	2,031	2,734
Trading and other income		**11,042**	**5,203**
Personnel expenses	27a	(15,963)	(15,809)
Depreciation and amortisation	11, 12	(7,409)	(7,207)
Other administrative expenses	27b	(12,266)	(11,212)
Expected credit losses and provisions	28	(822)	(8,421)
PROFIT / (LOSS) BEFORE TAX		**2,017**	**(16,309)**
Income tax expense	29	-	(283)
PROFIT / (LOSS) FOR THE YEAR		**2,017**	**(16,592)**
EARNINGS PER SHARE (in HRK)	**30**	**0.07**	**(0.54)**

The significant accounting policies and other notes on pages 37 to 118 form an integral part of these financial statements.

Statement of comprehensive income for 2020

[HRK'000]	2019	2020
Profit / (loss) for the year	**2,017**	**(16,592)**
Items that will be reclassified subsequently to profit or loss:		
Financial assets at fair value through OCI - net change in fair value	7,483	578
Financial assets at fair value through OCI – reclassified to profit or loss	(7,283)	(84)
Financial assets at fair value through OCI - net changes in ECL allowance	(571)	(330)
Financial assets at fair value through OCI - deferred tax	(36)	(89)
Other comprehensive (loss) / gain, net of tax	**(407)**	**75**
TOTAL COMPREHENSIVE INCOME / (LOSS)	**1,610**	**(16,517)**

The significant accounting policies and other notes on pages 37 to 118 form an integral part of these financial statements.

Statement of changes in equity

[HRK'000]	Notes	Share capital	Share Premium	Treasury shares	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2019		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,821**	**(203,917)**	**129,014**
Total comprehensive income								
Profit for the year		-	-	-	-	-	2,017	2,017
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*7,483*	-	*7,483*
Reclassified to profit or loss		-	-	-	-	*(7,283)*	-	*(7,283)*
Net changes in ECL allowance		-	-	-	-	*(571)*	-	*(571)*
Deferred tax on movements in fair value reserve		-	-	-	-	*(36)*	-	*(36)*
Total comprehensive income / (loss)		-	-	-	-	**(407)**	**2,017**	**1,610**
Balance at 31 December 2019		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,414**	**(201,900)**	**130,624**
Balance at 1 January 2020		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,414**	**(201,900)**	**130,624**
Total comprehensive income								
Loss for the year		-	-	-	-	-	(16,592)	(16,592)
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*578*	-	*578*
Reclassified to profit or loss		-	-	-	-	*(84)*	-	*(84)*
Net changes in ECL allowance		-	-	-	-	*(330)*	-	*(330)*
Deferred tax on movements in fair value reserve		-	-	-	-	*(89)*	-	*(89)*
Total comprehensive income / (loss)		-	-	-	-	**75**	**(16,592)**	**(16,517)**
Balance at 31 December 2020		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,489**	**(218,492)**	**114,107**

The significant accounting policies and other notes on pages 37 to 118 form an integral part of these financial statements.

Statement of cash flows for 2020

[HRK'000]	Notes	2019	2020
Cash flow from operating activities			
Profit/(loss) for the year		2,017	(16,592)
Adjustments:			
Depreciation, amortization of property and equipment and intangible assets	11, 12	7,409	7,207
Write-offs of property and equipment		44	2,565
Impairment losses and provisions without foreclosed assets	28	822	2,861
Net interest income		(18,916)	(16,747)
Net gains on financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	(7,034)	(68)
		(15,658)	**(20,774)**
Changes in operating assets and liabilities			
Net decrease /(increase) in loans and advances to customers		118,555	(65,508)
Net increase in placements with other banks		(1)	(10)
Decrease in obligatory reserves		1,913	20,255
Net (increase)/decrease in other assets		(3,009)	3,874
Net (decrease) /increase in deposits from customers		(54,506)	13,949
Net increase/(decrease) increase in other liabilities and provisions		31,019	(843)
Movements in operating assets and liabilities		**93,971**	**(28,283)**
Interest received		36,322	22,088
Interest paid		(15,095)	(9,263)
Net cash inflow / outflow from operating activities		**99,540**	**(36,232)**
Receipts from/(purchase of) investment funds		(24,601)	3,572
Purchase of debt securities		(290,974)	(40,505)
Proceeds from debt securities		230,147	74,525
Acquisition of property and equipment and intangible assets		(553)	(348)
Net cash outflow / inflow from investing activities		**(85,981)**	**37,244**
Receipts from borrowings		126,277	74,336
Repayment of borrowings		(125,818)	(76,782)
Repayment of IFRS 16 leases		(3,001)	(2,779)
Increase/(decrease) in subordinated debt		90	338
Net cash outflow from financing activities		**(2,452)**	**(4,887)**
Net (decrease)/increase in cash and cash equivalents		11,107	(3,875)
Cash and cash equivalents at the beginning of the year		220,487	231,594
Cash and cash equivalents at the end of the year	**32**	**231,594**	**227,719**

The significant accounting policies and other notes on pages 37 to 118 form an integral part of these financial statements.

Notes to the financial statements

1. General information

J&T banka d.d. ("the Bank") Member of the J&T Finance Group, dated back to 1994, when the Brodsko-posavska banka d.d. was incorporated in Slavonski brod, to build upon the tradition of the former Varaždinska banka, it changed its name on December 27, 2004 to Vaba d.d. banka Varaždin and relocated to Varaždin.

The Czech bank J&T a.s. recapitalised the bank with HRK 75 million in June 2014 and increased the Bank's capital to HRK 128.6 million. During 2015, J&T has further invested in the Bank's capital and the share capital was increased to HRK 231.1 million. During 2016, another increase of the share capital of the Bank was conducted in the amount of HRK 76 million by the majority shareholder of the Bank - J&T Bank a.s. so the new share capital amounts to HRK 307.1 million, and J&T Banka a.s. holds a total of 25,350,000 shares tags BPBA-R-B or equity of 82.55%.

From 1 January 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 31 March 2021 for submission to the Supervisory Board.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia. The statutory accounting requirements for banks in the Republic of Croatia as of 31 December 2020 are based on the recognition and measurement requirements of International Financial Reporting Standards as adopted in the EU ("EU IFRS" or "the Standards") and the CNB's banking regulations.

In these financial statements, balances in the statement of financial position and the related notes as of 31 December 2020 and 31 December 2019 are aligned to the EU IFRS recognition and measurement requirements, in all material respects.

The principal differences between the accounting regulations of the CNB (primarily the requirements of the Decision) and recognition and measurement requirements of EU IFRS are listed below. The differences identified do not raise material departure from the recognition and measurement requirements of EU IFRS as of 31 December 2020 and 31 December 2019:

- CNB required credit institutions to recognise expected credit losses, in the income statement, for eligible exposures carried at amortised cost classified in Stage 1 and Stage 2 that could not be less than 0.8% of the gross carrying amount of eligible exposures, including exposures to financial institutions and sovereigns. According to the provisions of Article 21 (2) of the Decision, from January 2020 banks in the Republic of Croatia are no longer obliged to recognise allowance for expected credit losses on stage 1 and stage 2 exposures carried at amortised cost and eligible off- balance sheet exposures of at least 0.8%. Following the specific CNB guidance (Q&A 2019-712), any resulting difference in expected credit losses is recorded in 2020 income statement.
- The Decision on the classification of exposures into risk categories and the method of determining credit losses ("the Decision") prescribes minimum levels of impairment losses against certain non-performing exposures for which individual impairment has been recognised, regardless of the net present value of expected future flows, so that the impairment calculated may be different from the impairment loss required to be recognised in accordance with the EU IFRS requirements.
- The Bank recognises provisions for court cases by incorporating the probability of loss into measurement of the provision (i.e. if the probability of loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which require the full amount of potential loss to be recognised where it is probable that the court case will be lost.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(a) Statement of compliance (continued)

- Suspended interest represents the accrued uncollected interest on assets which are classified as credit-impaired. Upon reclassification the Bank provides the full amount of the accrued uncollected interest in the income statement, and ceases to recognise any further interest in the statement of financial position and recognises suspended interest off-balance-sheet until collected in cash from the borrower. This policy is not in accordance with IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* which requires interest income on credit-impaired financial assets to be recognised using the effective interest rate method.

The principal accounting policies applied in the preparation of these financial statements are summarised below. The Bank has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except as disclosed above. Where specific accounting policies are aligned with accounting principles set out in EU IFRS, reference may be made to certain Standards in describing the accounting policies of the Bank. Unless otherwise stated, these references are to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable as at 31 December 2020.

(b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

(c) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of 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.

Judgements made by the management in application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in future periods are discussed in Note 5.

(d) Functional and presentation currency

The Bank's financial statements are presented using the currency of the primary economic environment in which the Bank operates (the functional currency), Croatian kuna (HRK). Amounts are rounded to the nearest thousand, unless otherwise stated.

The exchange rates of currencies, in which the majority of the Bank's assets and liabilities are denominated, are used for the translation of the Bank's assets and liabilities and as at 31 December 2020 they were as follows: EUR 1 = HRK 7.537 (2019: EUR 1 = HRK 7.443) and USD 1 = HRK 6.139 (2019: USD 1 = HRK 6.650).

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Application of new and revised Standards

The Bank has consistently applied the accounting policies as set out in the Notes below to all periods presented in these financial statements. New standards effective from 1 January 2020 do not have a material effect on the Bank's financial statements.

(f) Going concern

The financial statements have been prepared on a going concern basis.

In 2020, the Bank realised a net loss of HRK 16.6 million (2019: net profit of HRK 2 million) and at 31 December 2020 had accumulated losses of HRK 218.5 million (31 December 2019: 201.9 million). Due to significant losses in the past, the Bank had several recapitalisations by the majority owner since 2014 in order to maintain capital adequacy prescribed by the CNB.

As disclosed in Note 4.1.5, the TIER 1 capital adequacy ratio at 31 December 2020 amounts to 15.91% and is above the minimum rate prescribed by the CNB and the Bank's total capital adequacy ratio amounts to 19.65%.

The Management considers that the emergence of COVID-19 pandemic outbreak during the financial year 2020 and the associated lock-down measures adopted by the Croatian Government had negative effects that are expected to be partially offset by the economic relief measures put in place by the Government and the European Union. Acknowledging the unpredictability surrounding the economic recovery and the impact of the lockdown measures adopted, the Management has reasonable expectation that it has adequate resources to continue with operation for a period of at least 12 months from the reporting date and that the going concern basis of preparation of financial statements is appropriate.

As disclosed in Note 39, the going concern assumption has been influenced by systemic threats associated with the COVID-19 (coronavirus) outbreak. Following the coronavirus outbreak, the Bank is continuing to monitor the situation carefully and taking precautions in line with the recommendations of the World Health Organization and local authorities. Critical activities and processes are constantly monitored, assessing the potential evolutions and impacts on the business activities. Note 39 provides further details of the facts and circumstances considered by the Management Board in concluding on the going concern assumption.

Notes to the financial statements (continued)

3. Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognized in profit or loss as it arises for all interest-bearing financial instruments, including those measured at amortized cost and FVOCI debt securities, taking into account the effective rate of return of the asset / liability or the applicable variable rate. Interest income and expense includes amortization of the discount or premium, as well as other differences between the initial carrying amount of the interest-bearing financial instrument and the amount by maturity, which is calculated using the effective interest rate.

An effective interest rate is the rate at which the expected future cash outflows or receipts are discounted over the expected lifetime of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest income is recognized depending on the degree of credit risk of a financial instrument and for financial assets classified in Stage 1 and Stage 2 (performing) - when calculating interest income, the EIR is applied to the gross carrying amount of financial assets, and for financial assets allocated to Stage 3 the interest is suspended. Suspended interest represents an already charged interest on an asset for which an individual impairment has been recognized (non-performing). At the time of reclassification into uncollectable receivables, the Bank writes off the full amount of accrued uncovered interest at the expense of the income statement and suspends further calculation in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

For purchased or created financial assets decreased for credit losses - POCIs, the EIR adjusted for credit risk at the amortized cost of the POCI assets is applied in the calculation of interest income.

In calculating the effective interest rate, the Bank does not take into account future credit losses. The calculation includes all fees and percentage points paid or received between the contracting parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on debt securities at fair value through profit or loss is recognized at the nominal coupon interest rate and is included in interest income.

(b) Fee and commission 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 the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself or has retained a part at the same effective interest rate as other participants. Portfolio and other management service fees are recognised based on the applicable service contracts.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Net realised gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI

The category includes realised and unrealised gains and losses on debt and equity securities held for trading and other financial instruments at fair value through profit or loss.

Net gains and losses on derecognition of financial assets at fair value through other comprehensive income refer to gains and losses from sale of debt securities classified as FVOCI.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(e) Net foreign exchange gains and losses

Net gains and losses from foreign exchange include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

(f) Foreign currencies

Foreign currency transactions are translated into the respective functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not re-translated.

Changes in the fair value of securities denominated in foreign currency classified as fair value through OCI are separated between exchange rate differences arising from changes in the amortized cost of securities and other changes in the carrying amount of the security. Translation differences on securities classified as FVOCI are recognised in profit or loss, while other changes in carrying amount are recognised in other comprehensive income.

Foreign exchange differences are recognized in the income statement as part of exchange gains or losses on the sale of monetary assets and liabilities. Foreign exchange differences on non-monetary financial assets, are included within other comprehensive income.

(g) Financial instruments

i) <u>Classification</u>

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL).

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not valued at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows;
- The contractual terms of a financial asset presume cash flows that are solely principal and interest payments (SPPI), at specific dates.

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- The purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets presume cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Bank may irrevocably decide to display subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

All other financial assets are classified as measured at fair value through profit or loss (FVTPL).

In addition, at initial recognition, the Bank may irrevocably evaluate financial assets at fair value through profit or loss (FVTPL), although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income (FVOCI), if this eliminates or substantially reduces the accounting mismatch that would arise if contrary.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Business Model Assessment

The Bank determines the goal of the asset's business model because it best represents the way in which assets are managed and the Bank's management is reported. Information considered includes:

- management policies and portfolio objectives and implementation of these policies in practice;
- assessing the performance of the portfolio and reporting to the management of the Bank;
- risks affecting the performance of the business model (and financial assets within that business model) and the risk management strategy; and
- frequency, volume and time of sales in previous periods, reasons for the sale and expectations of future sales activities.

Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

Estimate whether contractual cash flows are solely principal and interest payments

In order to assess whether contractual cash flows are solely payments of principal and interest, the principal is defined as the fair value of financial assets at initial recognition. Interest is defined as compensation for the time value of money and credit risk associated with the outstanding principal amount over a specified period of time and for other basic risks and costs of lending (eg liquidity risk and administrative costs) and as a profit margin.

When assessing whether the contractual cash flows are solely principal and interest payments (SPPI), the Bank considers the contractual terms of the instrument. This includes assessing whether a financial asset contains a contractual term that could change the time or amount of contractual cash flows so that it would not meet the SPPI requirement. When assessing, the Bank considers:

- potential events that would change the amount and time of cash flows;
- terms of prepayment and extension; and
- features that alter the consideration of the time value of money (eg periodic interest rate reset).

Reclassification

Financial assets are not reclassified after initial recognition, except in the period after the change in the financial model for the financial asset management.

Loans and advances to customers

The "Loans and advances to customers" caption in the statement of financial position includes loans and advances measured at amortised cost; initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Financial assets - investment securities

The 'financial assets - investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at fair value through profit and loss account (FVTPL) or designated as at fair value through profit and loss account (FVTPL); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at fair value through other comprehensive income (FVOCI); and
- equity investment securities designated as at fair value through other comprehensive income (FVOCI).

For debt securities measured at fair value through other comprehensive income (FVOCI), gains and losses are recognised in other comprehensive income (OCI), except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income;
- calculation of Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss.

The Bank decides to present in other comprehensive income (OCI) changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income (OCI). Cumulative gains and losses recognised in other comprehensive income (OCI) are transferred to retained earnings on disposal of an investment.

ii) Recognition and derecognition

Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. Regular way purchases and sales of financial assets are recognised on the settlement date. The settlement date is the date that an asset is delivered to or by the Bank and while the underlying asset or liability is not recognised until the settlement date, changes in the fair value of the underlying financial assets and liabilities at fair value through profit or loss and FVOCI financial assets are recognised starting from the trade date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, apart from quantitative factors, the bank considers the following: change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument no longer meets the SPPI criterion.

Modifications of financial assets which do not result in substantially different cash flows

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Derecognition of financial assets other than for substantial modification

A financial asset (or, a portion thereof or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass-through" arrangements that result in derecogntion if the Bank: (i) has no obligation to make payments unless it collects equivalent amounts from the assets, (ii) is prohibited from selling or pledging the assets and (iii) has an obligation to remit any cash it collects from the assets without material delay.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets other than for substantial modification (continued)

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.
Collaterals (e.g. bonds) furnished by the Bank under standard repurchase agreements and borrowing transactions are not dereocognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

Derecogntion of financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. If the terms of a financial liability are significantly modified, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.
Realised 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 recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair values, and transaction costs are directly recognised in profit or loss.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss at their fair value, without any deduction for selling costs. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

Loans and receivables and investments measured at amortised cost and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

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

Gains or losses arising from a change in the fair value of FVOCI financial assets are recognised directly in the other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial assets at FVOCI are recognised in profit or loss. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income.

Upon sale or other derecognition of FVOCI financial assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in profit or loss over the period of amortisation. Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired. Dividend income is recognised in the income statement.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

v) Determination of fair value of financial instruments

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Bank establishes fair value using a valuation techniques (except for certain unquoted equity securities) that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

Amortised cost of financial assets or liabilities is the amount at which that financial asset or liability is initially recognized, less any principal repayments, increased or decreased by cumulative depreciation by applying the effective interest method to an eventual difference between the initial recognition and the amount at maturity, less any impairment allowance.

For financial reporting purposes, fair value measurements are categorised 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.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets

The Bank recognises loss allowances for "expected credit losses" (hereinafter: ECL) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- debt instruments;
- issued guarantees; and
- loans and advances to customers.

No impairment loss is recognised on equity investments and financial assets at fair value through profit or loss (FVTPL).

The Bank measures impairment losses at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12-month expected credit loss (ECL):

- debt securities for which it was determined to have a low credit risk at the reporting date; and
- other financial instruments for which credit risk has not significantly increased since their initial recognition.

12-month expected credit losses (ECL) are the portion of expected credit loss (ECL) that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss (ECL) is recognised are referred to as "Stage 1 financial instruments", or A-1 risk category by CNB.

Life-time expected credit losses (ECL) are the expected credit losses (ECL) that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss (ECL) is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments", or A-2 risk category by CNB.

Total impairment of exposures classified in risk categories A-1 and A-2 during the period until 31 December 2019 may not be less than 0.8% of the gross book value except for financial assets measured at fair value through other comprehensive income. Pursuant to the Decision on the classification of exposures into risk groups and the method of determining credit losses, from 1 January 2020 the Bank is no longer obligated recognise allowance for expected credit losses on stage 1 and stage 2 exposures carried at amortised cost and eligible off- balance sheet exposures of at least 0.8%.

Expected Credit Loss Measurement (ECL)

For the purpose of assessing the expected credit losses, the Bank prescribes processes and control mechanisms for the development and application of estimation methods of expected credit losses with a goal to ensure their integrity and timely inclusion of relevant data.

Probability of default (PD) provides an estimate of the probability that the borrower will not be able to fulfil his obligations. For PD calculations loans and advances are divided into corporate and retail. Corporate loans are divided into homogeneous groups, based on type of product, while retail is a separate homogeneous group. For each homogeneous groups, the default rate is calculated based on available internally developed historical data. In order to incorporate future information adequately into macroeconomic scenarios, the Bank uses adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of customised publicly available information. To determine the PD (probability of default) for exposures to sovereign, central banks and financial institutions or exposures rated by an external credit rating institution, the Bank uses data available on the Moody's Investor Service website. The assigned PD is based on counterparty external credit rating.

LGD (Loss Given Default) represents a loss due to default status. For unsecured exposures for which an external credit rating is available, the Bank uses the basic approach prescribed by the BIS (Bank for International Settlement) and LGD of 45% is applied (Basel Committee on Banking Supervision Discussion Paper Regulatory treatment of accounting provisions, October 2016). For securities managed under the Financial Assets model through other comprehensive income, and primarily related to corporate bonds, the Bank uses the internal rating of the parent company (J&T bank a.s.) to calculate the ECL ("Expected credit loss"). For financial instruments that relate to exposures to financial institutions which are supervised by the central bank, but do not have an established rating of the recognized ECAI, the Bank applies a single provisioning percentage of 0.80% of the gross carrying amount.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Expected Credit Loss Measurement (ECL) (continued)

For securities under the model Financial assets through other comprehensive income, primarily related to corporate bonds, the Bank uses the Parent Company's internal rating (J&T bank a.s.) to calculate the ECL ("Expected credit loss"). For financial instruments related to exposures to financial institutions that are supervised by the central bank but do not have an assigned rating by external credit assessment institutions, the Bank applies a single provision of 0.80% of the gross book value of exposure.

Restructuring of financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Definition of default

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets').

The borrower is considered as defaulted and therefore Stage 3 in cases when the borrower is more than 90 days past due on any material credit obligation to the Bank or when the borrower is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulties of the debtor;
- breach of contract such as failure to complete or due to maturity;
- restructuring of a loan or an advance by the Company under conditions that the Company would not consider in the normal circumstances;
- it is probable that the borrower will enter bankruptcy or another type of financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Presentation of impairment allowance for expected credit loss (ECL) in the statement of financial position

Loss allowances for expected credit loss (ECL) are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the asset;
- credit lines and issued guarantees: in general, as provisions;
- when the financial instrument includes a drawn and an undrawn component, and the Bank can not identify the expected credit loss (ECL) separately: The Bank shows a loss for both as a deduction from the gross carrying amount of the used component;
- Debt instruments measured at fair value through other comprehensive income (FVOCI): no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

vii) Offsetting of financial instruments

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(h) Specific financial instruments

Cash and cash equivalents

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

Derivative financial instruments

In accordance with its investment policy, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied. Derivative financial instruments are initially recognised at fair value which is the value of the 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 derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Unless it is inconsistent with the requirements of the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the primary contract and when the hybrid contract is not itself carried at fair 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 unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(h) Specific financial instruments (continued)

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for short-term gain purposes are carried at fair value. The Bank uses treasury bills for liquidity purposes.

Equity securities and investments in investment and other funds

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

Placements with banks

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

Current accounts and deposits from banks

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

Deposits from customers

Deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at the amortised costs using the effective interest method.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses to reflect the estimated recoverable amounts or at fair value for loans and advances that are measured at fair value.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest expense.

Sale and repurchase agreements

The Bank enters into purchases and sales of investments under agreements to resell or repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised as loans to either banks or customers, collateralised by the underlying security from the repurchase agreement. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of investments are reported as collateralised liabilities to either banks or customers.

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

Financial guarantee

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

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee becomes probable), depending on which amount is higher. Financial guarantees are included within other liabilities.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(i) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

Right-of-use assets

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

The lease liability is measured at amortised cost using the effective interest method.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Income tax

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

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

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

(k) Property and equipment

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

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2020	2019
Buildings	33 years	33 years
IT equipment	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

(l) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 “*Intangible Assets*” are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

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

	2020	2019
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Applicative software developed by the Bank	10 years	10 years
Licences	5 years	5 years

(m) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). 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.

All non-financial assets previously impaired, 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 amortisation/depreciation, if no impairment had been recognised.

(n) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures, as previously referred to in Note 3 (g) 'Financial Instruments'.

Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in the opinion of the Bank's Management Board, best represent the time value of money.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(p) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in HRK. The premium on the issued shares presents the surplus of the fair value above the nominal value of the issued shares.

Accumulated losses

Accumulated losses include losses from previous periods and loss for the year.

Loss per share

The Bank presents basic loss per share (EPS) data for its ordinary shares. Basic EPS 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.

Treasury shares

Acquisition of treasury shares is carried out in the cases provided by the Companies Act, primarily in order to eliminate possible damage. Purchased treasury shares are stated at cost of purchase. The difference realized through the sale of treasury shares at the cost above the cost of acquisition is shown in favour of the capital gains account, and the difference realized below the cost of acquisition represents a capital loss.

(q) Off-balance-sheet commitments and contingent liabilities

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

(r) Foreclosed assets

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

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Bank’s intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Bank.

Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

4. RISK MANAGEMENT

4.1 Internal assessment of risk of the Bank’s operations

This section provides details regarding the Bank’s exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted strategies and policies which include objectives and basic principles of risk assumption and management, define its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and the risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.
As previously disclosed within the separate Note, COVID-19 outbreak constitutes a significant new event which has significantly impacted the Bank’s risk management.

4.1.1 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. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. The Bank has established a system for monitoring its entire loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and total exposure. Report on Credit Risk and Concentration Risk is prepared by the Risk Management Sector. Based on the analysis results, decisions are made on the Bank’s strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, risk product type, certain type of collateral, etc.

Risk Appetite Statement in the area of credit risk and Credit Risk Management Policy and Strategy is the main document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- maximum exposure limits regarding risk products with common risk factors,
- procedures and measures for approval of deviations from the application of existing policies, in case such deviations should occur and
- stress testing as a preparation of the Bank for possible crisis situations.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

- debtors' creditworthiness,
- timely settlement of due instalments and
- collateral quality.

Creditworthiness is assessed for each loan application, and thereafter, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position or an increase in risk due to the decrease of collateral value.

The Bank's effort, whenever possible, is to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of overall restructuring of the debtors' operations or financial position. This should ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

COVID-19 outbreak constitutes significant event and source of uncertainty which requires management to apply judgements and estimates in assessing its impact on the financial position and performance. During the financial year 2020, COVID-19 pandemic affected Bank's economic activities and the resulting profitability. The slow-down of economic activities has determined a reduction of all the categories of commercial revenues (interests and commissions) and financial revenues (trading results) due to the associated downturn of financial markets.

During the first half of the year, the Bank focused on the impacts of the pandemic on its business and operations as well as the measures put in place by Government of Republic of Croatia to slow the spread of the pandemic, and the effectiveness of the various extraordinary monetary measures taken to mitigate the financial impact on companies and individuals. While the situation stabilised to some extent in the second half of the year as lockdowns proved reasonably effective in containing the virus and there were positive developments with respect to potential vaccines, the Bank's continued to focus on the impact of the external environment on the client's risk profile, particularly with regard to the ongoing impact of the COVID-19 pandemic.

The slow-down of the economic activity resulting from the pandemic COVID-19 and the associated lock-down measures has affected the estimates on credit exposures recoverability and the calculation of the associated loan loss provisions. The amount of loan loss provisions is determined considering the current and expected classification of credit exposures and credit parameters (Probability of Default, Loss Given Default and Exposure at Default) which, in accordance with IFRS 9 incorporate among other factors forward looking information and the expected evolution of the macro-economic scenario. In this context the Bank has applied COVID-19 specific adjustments in forward looking information in PD calculation to ensure the full potential impacts of COVID are provided for.

The measurement of expected credit lossess is affected by the degree of uncertainty on the evolution of the pandemic, the effect of the relief measures and, ultimately, the start and the degree of economic recovery. The evolution of these factors may require in future financial years the classification of additional credit exposures as non-performing, thus determining the recognition of additional loan loss provisions related to both these exposures as well as performing exposures following the update in credit parameters. In this context, among other factors, the relevant will be the ability of the customers to service their debt once moratoria measures granted will expire.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories

The risk classification process and classification criteria into risk categories and impairment for expected credit losses is defined by the CNB's Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses and IFRS 9 *Financial instruments*.

The Bank classifies its loan exposures into two groups: small loan portfolio (group of related exposures below HRK 200 thousand) and individually significant exposures (group of related exposures exceeding HRK 200 thousand). Impairment of small loan portfolio exclusively depends on the ageing of overdue amounts, while impairment of individually significant exposures are individually assessed for impairment, as it was earlier described in Note 3 g) vi).

Almost all provisions for expected credit losses for the small loan portfolio are measured on a collective basis. The portfolio of exposures for which ECL provisions are measured on a collective basis as at 31 December 2020 amounted to HRK 25,273 thousands. Provisions for expected credit losses for individually significant exposures in to amount of HRK 472,424 thousands as at 31 December 2020 are made on an individual basis.

On initial recognition, financial assets subject to the expected credit loss model are classified in risk category A-1, except in the case of purchased or created financial assets less credit losses when the indicator POCI is added to the risk category.

The Bank reassesses the risk of each exposure subject to the expected credit loss model at least every 3 months, and possibly more frequently if necessary. The Bank assesses the credit quality of exposures throughout the contractual relationship and classifies those exposures into appropriate risk groups based on the following general classification criteria:

1) the debtor's creditworthiness,

2) regularity in the settlement of the debtor's obligations to the credit institution and other creditors represents the debtor's ability to fully settle its obligations to the Bank on the basis of principal, interest, fees and other grounds within the agreed terms,

3) the quality of the security for individual exposures, which is determined on the basis of market liquidity, documentation and the ability to exercise supervision by the bank, the possibility of forced collection and value in relation to the exposure based on placements / off-balance sheet liabilities.

In order to assess the impact of the crisis on its clients portfolio, the Bank introduced more frequent reviewing of the performance of the client portfolios. Also, in line with coordinated approach of accounting bodies and regulator, the Bank has assessed expected losses of its clients which are in moratoriums by assessing whether difficulties that the clients are facing represents only temporary economic shock, in which case moratoria and concession approved to the clients were not considered to represents significant increase in credit risk.

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the support measures.

Increased credit risk arises in the event of any of these conditions occurring and indicates the reclassification of exposures from A1 to A2:

- the borrower is late in payment of its overdue exposures by more than 30 days at the reporting date (based on materiality threshold), but is still within deadlines not exceeding 90 days (based on materiality threshold),,
- in the last 3 months, the borrower has been late in paying its overdue exposures more than 30 days (based on materiality threshold), and
- Existence of "forbearance" measures.

In addition to the day of delays mentioned in the previous paragraph, the Bank prescribes additional indicators for large portfolio that are monitored and indicate increased credit risk. These are indicators of a qualitative and quantitative nature closely related to the client's business. The occurrence of any of the indicators indicates a reclassification of exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories (continued)

In accordance with regulatory guidance, customers were able to obtain a moratorium of up to six months (for significantly impacted industries like tourism up to some twelve months). Such moratoria would not necessarily have been considered forbearance. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related moratoria were not considered forborne. However, any support provided beyond completion of a moratorium is considered forbearance.

Those who are deemed either (a) to require a prolonged timescale to return to within the Bank's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, are categorised as forborne, in line with regulatory guidance.

The Bank considers that default status has occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries
- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

During December 2020, Bank has implemented and adopted new regulatory requirements from EBA (European Banking Authority) related to New Definition of Default (New DoD) coming into force latest at 31 December 2020. The New DoD did not have a significant financial impact on exposure risk classification nor on impairment losses.

After calculating the required impairment, the Bank allocates exposures to risk categories depending on the level of the calculated loss (in accordance with the CNB Regulations).

1. **Risk category A**

   A1 - newly approved exposures at the beginning of the contractual relationship and exposures where no significant increase in credit risk was identified since initial recognition (calculation of expected credit losses over a twelve-month period)

   A2 - exposures where a significant increase in credit risk was recognized since initial recognition (calculation of expected credit losses over the lifetime of the financial asset)

2. **Risk category B** – partly recoverable exposure which are classified into three subcategories, depending on the percentage of the impairment losses recognized in relation to the nominal carrying amount:

   B1 – when the level of impairment and provisions does not exceed 30% of the exposure amount;

   B2 – when the level of impairment and provisions amounts to more than 30% (minimum 30.01%) and not more than 70% of the exposure amount;

   B3 – when the level of impairment and provisions is more than 70% (minimum 70.01%) and less than 100% of the exposure amount.

3. **Risk category C** - non-recoverable placements with impairment at the amount of 100% exposure.

Exposures classified in risk category represent performing exposures while exposures in risk category B and C represent non performing exposures.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months, or 12 months in case Forbearance activities were previously made on the defaulted obligor.
Once cured, the decision whether to classify in Stage 2 or Stage 1 depends on whether there has been a significant increase in credit risk since initial recognition.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Assets exposed to credit risk

The Bank's primary exposure to credit risk arises from loans and advances to customers, debt securities, amounts with the CNB, accounts with banks and receivables. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from unused facilities and guarantees issued. Exposures to banks and other assets that are not presented at fair value are also considered a credit risk where the credit risk is not the primary risk of impairment. The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment for expected credit losses before the effect of mitigation through collateral agreements.

[HRK'000]	Notes	31 December 2019	31 December 2020
Amounts with the Croatian National Bank	6	149,319	148,658
Placements with other banks	8	467	477
Giro accounts with other banks	7	135,689	113,237
Financial assets at fair value through OCI	9	294,515	259,826
Loans and advances to customers	10	383,098	434,179
Other assets	13	1,440	2,123
Total assets exposed to credit risk		**964,528**	**958,500**
Guarantees		6,804	5,231
Credit lines		23,269	12,840
Total off-balance sheet exposure to credit risk	33	**30,073**	**18,071**
Total credit risk exposure		**994,601**	**976,571**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held

In terms of credit risk mitigation, the Bank's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. As a rule, the Bank approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

Based on the applicable acts, the Bank's standard collateral instruments are, in addition to promissory notes and bills of exchange: bank guarantees, real estate and movable asset pledges/fiduciary rights, fiduciary/pledge rights on shares and shares in open-ended investment funds, fiduciary/pledge rights on equity interests in a company, assignment of receivables from companies and government, guarantees of guarantee agencies and cash deposits.

A significant part of the corporate portfolio is secured by mortgages over different types of property. The liquidity of the real-estate market has an effect on the recoverability of assets and its timing in cases where, due to borrowers' financial difficulties, the Bank relies on collateral for collection.

The valuation of property and movable assets is performed by certified assessors included in the list of the Bank's certified assessors. The collateral value is revised based on common business practices and market movements.
The collaterals undergo a valuation process within the bank, performed by specially trained staff. In addition to the collateral valuation process, eligibility is determined for each security instrument in accordance with internal regulation. All collaterals are subject to revaluation.

The frequency of collateral valuation depends on the type of collateral:

Type of collateral	Collateral evaluation period
Financial collateral	yearly
Commercial property	yearly
Residential property	yearly
Other	yearly

For exposures over HRK 200 thousands new evaluation is done by an independent evaluator at least every 3 years while additionally for exposures over HRK 1 million new internal evaluation is done on an annual basis. In respect of non-performing exposures we have ensured adequate rotation of independent evaluators meaning that after two sequential valuations done by the same evaluator we will appoint a different one for the next evaluation.

The revaluation method depends on the type of collateral and the exposure. For real estate which secures exposures to corporate acceptable methods are comparative, income and cost method. Comparative method is mostly used for residential and commercial properties, income method for properties which main purpose is rental activities while cost method is mostly used for properties with public/community purposes, non-rental and non-comparable residential properties.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

The table below sets out the carrying amount and the value of identifiable collateral (mainly residential and commercial property) held against loans and advances to customers measured at amortised cost. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against:

[HRK'000]	2020 Carrying amount	2020 Collateral	2019 Carrying amount	2019 Collateral
Loans and advances to customers at amortised cost				
Corporate				
Stage 1 and Stage 2	364,609	199,617	275,128	41,173
Stage 3	79,255	57,326	98,632	58,058
	443,864	256,943	373,760	99,231
Retail				
Stage 1 and Stage 2	28,959	10,837	39,668	12,101
Stage 3	5,454	1,110	11,628	997
	34,413	11,947	51,296	13,098
Total	**478,277**	**268,890**	**425,056**	**112,329**

The table below show the market value of collateral:

Type of collateral	Market value of collateral	
[HRK'000]	31.12.2019	31.12.2020
Commercial property	76,121	220,772
Cash deposits	1,418	6,170
Movable property	9,126	8,848
Other types of collateral	3,052	2,516
Residential property	22,612	30,584
Total	112,329	268,890

Assets obtained by taking possession of collateral

During the year the Bank obtained possession of collateral (mainly property) held as security against loans and advances and held at the year-end in the amount of HRK 14,753 (2019: HRK 1,320 thousands).

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

Restructuring of loan exposures

Restructuring of an exposure resulting with a decrease of initially contracted debtor's liabilities, is considered to be an evidence of loss. The Bank has set up a system for identifying and subsequent monitoring of restructured exposures. Restructured exposures which were classified in risk category A before restructuring, are at least classified to risk category B1. Restructured exposures which were classified in one of the sub-categories of the risk category B before restructuring are classified in that same risk category or lower after restructuring. Reclassifying a restructured exposure into a different risk category is performed immediately during the restructuring:

Restructured exposures may be classified into risk category A after a period of at least 12 months if, after the credit assessment, it is evident that the exposure meets the following conditions:

a) financial position of the client is based on reliable cash flows
b) regular repayment has been established in a period of minimum 12 months and during that period significant payments have been made (regular repayment means no debt due over 30 days)
c) there are no overdue outstanding claims in accordance with the repayment plan that is applied in accordance with the restructuring plan.

The minimum period of 12 months specified in the previous paragraph begins with the last of the following events:

a) moment of introducing measures for the restructuring of exposure
b) the end of the period of interest included in the exposure restraint arrangement

In case of a classification of the restructured exposure to risk category A, and when required terms are fulfilled, a new 24-month period is activated during which the borrower may not be overdue for more than 30 days with a materially significant amount. Otherwise such exposure is again classified into the risk group B1 or worse.

An overview of restructured balance sheet exposures by portfolio segment and by restructuring status for the year 2020 and 2019 is given below:

Amount of balance sheet exposures with forbearance measures

		31.12.2019			31.12.2020	
[HRK'000]	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Retail	806	1,367	2,173	485	695	1,180
Corporate	15,758	18,030	33,788	-	20,918	20,918
Total	16,564	19,397	35,961	485	21,613	22,098

Performing forborne exposures have been decreased in 2020, mainly due to repayment of one large exposure.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

COVID related measures

COVID-19 Moratorium

In order to support corporate and retail clients, the Bank introduced relief measures including moratorium. As at 31 December 2020 fifty clients are benefitting from relief measures.

The following table summarizes the associated carrying amounts outstanding and residual maturity and related ECL impairment:

(HRK '000)	Gross carrying amount					ECL impairment		
				Residual maturity				
	Performing	Non-performing	**Total**	Of which: expired	<= 3 months	Performing	Non-performing	**Total**
Loans and advances subject to CNB-compliant moratoria								
of which: Corporate	55,796	-	55,796	8,526	47,270	1,192	-	1,192
of which: Retail	4,789	-	4,789	4,589	200	62	-	62
Other loans and advances subject to COVID-19-related forbearance measures								
of which: Corporate	-	44,637	44,637	22,628	22,009	-	14,355	14,355
of which: Retail	-	133	133	121	12	-	13	13

The Bank will continue in supporting clients and adequately assessing their creditworthiness, carefully considering the adequacy of risk classification as well as the related impact on financial reporting. In accordance with the CNB and ECB instructions, the availability of these relief measures to a general population of customers was not itself an automatic trigger for classification into forborne category or to conclude that a significant increase in credit risk has occurred for all clients who utilized the measures.

The approved relief measures to performing exposures was assessed as CNB-compliant moratoria.

Monitoring activities

Following the introduction of COVID-19 measures to help the economy the Bank further intensified the monitoring activities of clients' portfolio, the so-called UTP analysis, with special priority to clients who use or have used some of the COVID-19 measures

Credit Quality Analysis

The Bank has assessed expected losses of its clients which are in moratoriums by assessing whether difficulties that the clients are facing represents only temporary economic shock, in which case payment holidays and concession approved to the clients were not considered to represents significant increase in credit risk.

In accordance with regulatory guidance, customers were able to obtain a moratorium of up to six months (for significantly impacted industries like tourism up to some twelve months). Such moratoria would not necessarily have been considered forbearance. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related moratoria were not considered forborne. However, any support provided beyond completion of a moratorium is considered forbearance.

Those who are deemed either (a) to require a prolonged timescale to return to within the Bank's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, are categorised as forborne, in line with regulatory guidance.

Macroeconomic adjustment

As result of the COVID-19 the Bank has updated its macro-economic scenarios as at 31 December 2020. In addition to a base scenario, the Bank has also taken into consideration an adverse scenario and optimistic scenario. Weighting factors have been applied to each scenario. As a result of macroeconomic adjustment average probability of default of loans and advances to customers as at 31 December 2020 has increased by 30%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis

The following table presents information on credit quality of financial assets measured at amortized cost, debt instruments at fair value through other comprehensive income and other assets. Unless otherwise indicated, for financial assets shown in the table, values are represented as gross book value. For credit lines and guarantees, the amounts in the table are obligatory or guaranteed amounts.

[HRK'000]	2020				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Amounts with the CNB					
Very low risk	148,982	-	-	-	148,982
ECL allowance	(324)	-	-	-	(324)
Carrying value	**148,658**	**-**	**-**	**-**	**148,658**
Giro accounts with other banks					
Very low risk	113,605	-	-	-	113,605
ECL allowance	(368)	-	-	-	(368)
Carrying value	**113,237**	**-**	**-**	**-**	**113,237**
Placements with other banks					
Very low risk	477	-	-	-	**477**
ECL allowance	-	-	-	-	**-**
Carrying value	**477**	**-**	**-**	**-**	**477**
Loans and advances to customers at amortised cost					
Very low risk	305,686	-	-	-	**305,686**
Low risk	49,162	-	-	-	**49,162**
Medium risk	209	38,584	-	-	**38,793**
High risk	-	-	11,766	-	**11,766**
Default	-	-	69,413	3,457	**72,870**
ECL allowance	(6,591)	(1,383)	(33,238)	(2,886)	**(44,098)**
Carrying value	**348,466**	**37,201**	**47,941**	**571**	**434,179**
Other assets at amortised cost					
Very low risk	2,097	-	-	-	2,097
Past due impaired	-	-	3,414	-	3,414
ECL allowance	-	-	(3,388)	-	(3,388)
Carrying value	**2,097**	**-**	**26**	**-**	**2,123**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2020			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	259,830	-	-	**259,830**
Low risk	-	-	-	**-**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	(4)	-	-	**(4)**
Carrying value	**259,826**	**-**	**-**	**259,826**
Corresponding ECL allowance, recognised in equity fair value reserve	(460)	-	-	**(460)**
Credit lines				
Very low risk	12,839	-	-	**12,839**
Low risk	1	-	-	**1**
Medium risk	-	1	-	**1**
ECL allowance	(213)	-	-	**(213)**
Carrying value	**12,627**	**1**	**-**	**12,628**
Guarantees				
Very low risk	750	-	-	**750**
Low risk	625	-	-	**625**
Medium risk	-	110	-	**110**
High risk	-	-	546	**546**
Default	-	-	3,200	**3,200**
ECL allowance	(11)	(1)	(75)	**(87)**
Carrying value	**1,364**	**109**	**3,671**	**5,144**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2019				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Amounts with the CNB					
Very low risk	150,523	-	-	-	**150,523**
ECL allowance	(1,204)	-	-	-	**(1,204)**
Carrying value	**149,319**	**-**	**-**	**-**	**149,319**
Accounts with banks					
Very low risk	136,783	-	-	-	**136,783**
ECL allowance	(1,094)	-	-	-	**(1,094)**
Carrying value	**135,689**	**-**	**-**	**-**	**135,689**
Placements with other banks					
Very low risk	471	-	-	-	**471**
ECL allowance	(4)	-	-	-	**(4)**
Carrying value	**467**	**-**	**-**	**-**	**467**
Loans and advances to customers at amortised cost					
Very low risk	219,762	-	-	-	**219,762**
Low risk	42,043	-	-	-	**42,043**
Medium risk	607	35,935	-	-	**36,542**
High risk	-	16,449	23,564	-	**40,013**
Default	-	-	82,341	4,355	**86,696**
ECL allowance	(5,118)	(2,359)	(31,562)	(2,919)	**(41,958)**
Carrying value	**257,294**	**50,025**	**74,343**	**1,436**	**383,098**
Other assets at amortised cost					
Very low risk	1,440	-	-	-	1,440
Past due impaired	-	-	2,763	-	2,763
ECL allowance	-	-	(2,763)	-	(2,763)
Carrying value	**1,440**	**-**	**-**	**-**	**1,440**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2019			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	274,976	-	-	**274,976**
Low risk	19,547	-	-	**19,547**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	(8)	-	-	**(8)**
Carrying value	**294,515**	**-**	**-**	**294,515**
Corresponding ECL allowance, recognised in equity fair value reserve	(790)	-	-	(790)
Credit lines				
Very low risk	23,016	-	-	**23,016**
Low risk	251	-	-	**251**
Medium risk	1	1	-	**2**
ECL allowance	(274)	-	-	**(274)**
Carrying value	**22,994**	**1**	**-**	**22,995**
Guarantees				
Very low risk	1,625	-	-	**1,625**
Low risk	750	-	-	**750**
High risk	-	-	4,428	**4,428**
Default	-	-	-	**-**
ECL allowance	(19)	-	(88)	**(107)**
Carrying value	**2,356**	**-**	**4,340**	**6,696**

The credit risk of financial assets and credit lines and guarantees is presented through the internal credit risk classification.

Internally, the Bank classifies exposures to the following risk categories:

Very low risk - the client is timely in servicing its liabilities in last 12 months and the client has not been on watch list for the last 12 months,

Low risk – the client is timely in servicing its liabilities at the reporting date, but in the last 12 month the client has been classified in A2 or the client has been on Monitoring list,

Medium risk – the client has days of delays over 30 days but it is still classified as performing at the reporting date or the client is timely in servicing its liabilities at the reporting date but in the last 12 months the client had days of delays over 90 or it was restructured,

High risk – NPL exposures which has not exceeded 60 days of delays in the last 12 months,

Default – NPL exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

The following table sets out information about the overdue status of loans and advances to customers at amortised cost in Stages 1, 2 and 3:

	2020				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	354,710	37,485	42,764	-	**434,959**
Overdue < 30 days	347	846	12	-	**1,205**
Overdue > 30 days	-	253	38,403	3,457	**42,113**
	355,057	**38,584**	**81,179**	**3,457**	**478,277**

	2019				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	251,435	42,473	49,249	-	**343,157**
Overdue < 30 days	10,977	8,399	1,107	-	**20,483**
Overdue > 30 days	-	1,512	55,549	4,355	**61,416**
	262,412	**52,384**	**105,905**	**4,355**	**425,056**

During 2020, the Bank recorded a decrease in stage 3 portfolio gross carrying amount primarily as result of foreclosure activities and sale of NPL portfolio.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment

When determining whether the risk of default on a financial instrument has increased significantly from the initial recognition, the Bank takes into account both quantitative and qualitative information and expert credit assessments. The criteria for determining a significant increase in credit risk are set for the purpose of a proper allocation of exposure from Stage 1 to Stage 2. Throughout the contractual relationship, the Bank assesses credit exposure quality and classifies those exposures into appropriate risk groups on the basis of the general classification criteria:

- creditworthiness of the debtor,
- the timeliness in settling liabilities towards the credit institution and other creditors represents the debtor's ability to fully settle its liabilities towards the Bank including principal, interest, commissions and other liabilities within the agreed terms,
- the quality of the collateral instruments determined on the basis of marketability, documentation and the possibility of exercising control by the bank, the possibility of enforcement and value in relation to exposure / off-balance sheet liabilities.

Credit risk is considered to have increased considerably from the initial recognition if any of the following occurs:

- at the reporting date the debtor is past due for more than 30 days (based on materiality threshold), but is still within a period not exceeding 90 days and
- at the reporting date the borrower is timely in settling its liabilities. Days past due have not exceeded 30 days but exposure has been past due for more than 30 days in the last 3 months, not exceeding 90 days,
- Existence of "forbearance" measures.

Except for days past due, the Bank uses qualitative indicators to determine the increased credit risk pursuant to the internal credit risk monitoring system for the purpose of transitioning between "stages".

Macroeconomic adjustment

Measurement of financial assets reflects the best estimate of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of the non-performance of liabilities and losses due to the non-fulfillment of obligations. In order for future information to be adequately included in macroeconomic scenarios, the Bank prescribed the manner and the conditions of adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of adjusted publicly available information.

The Bank monitors Macroeconomic Developments primarily through the CNB's publication and the publication of Macroeconomic Forecasts and Trends. Major macroeconomic indicators seeking GDP, consumer price index and employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, it is necessary to consider GDP trends as the most significant macroeconomic variables.

For the calculation of ECL, three macroeconomic scenarios are considered: baseline, positive and contagious. Within the scenarios, credit risk parameters are stressed based on the changes in macroeconomic variables. Following variables are considered and taken into account: GDP, consumer price index and employment.

Modification of financial assets

In some situations, change in conditions or modifications in the contracted cash flow may result in termination of the recognition of an existing financial asset.

When a modification of a financial asset results in cessation of recognition of an existing financial asset and subsequent recognition of a modified financial assets, the modified financial asset is viewed as a "new" financial asset.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Modification of financial assets (continued)

Modification or change in contractual cash flows of financial assets occurs when re-contracting or as another change in contractual cash flows between the first recognition and maturity of the financial asset. Changes to the contractually agreed terms must be legally binding and enforceable.

When re-contracting or any other changes in contractual cash flows occur, during the period between initial recognition and maturity of the financial asset, the Risk Management Division / Credit Risk Management Department is obligated to determine whether there are any modifications and whether the modifications are so significant that the existing financial asset is derecognised and a new financial asset is recognised.

Expected Credit Loss Measurement (ECL)

Key figures for measuring expected credit loss are the following variables: probability of default (PD); loss given default (LGD)

Expected Credit Losses (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and the value of the exposure to credit risk at the reporting date. The ECL for the entire lifetime is calculated by multiplying the PD for its entire lifetime with LGD and the carrying amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the lifetime PD with LGD and the gross book value of exposure at the reporting date.
The following definitions apply to PD and LGD:

- PD (likelihood of a non-fulfilment of obligations): the probability of a transition from performing status to non-performing status over an one-year period,
- LGD (loss due to the non-fulfilment of obligations): percentage of loss in case of non-performing of obligations.

The table below shows the movement of expected credit losses for Loans and advances to customers valued at amortized cost:

[HRK'000]	2020				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2020	**5,118**	**2,359**	**31,562**	**2,919**	**41,958**
Transfer to expected credit losses in 12 months	73	(55)	(18)	-	-
Transfer to expected credit losses during lifetime	(89)	94	(5)	-	-
Transfer to non-performing status	(11)	(33)	44	-	-
Net remeasurement of loss allowance	1,500	(982)	7,241	(33)	**7,726**
Collected impaired interest	-	-	(3,260)	-	**(3,260)**
Write-offs and other movements	-	-	(2,326)	-	**(2,326)**
As at 31 December 2020	**6,591**	**1,383**	**33,238**	**2,886**	**44,098**

During 2020 the Bank sold a part of its non-performing loans to customers, with the gross value of HRK 2.927 thousands or net value of HRK 18 thousands. The Bank realised a gain on this sale.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2019				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2019	**7,349**	**1,331**	**45,110**	**2,807**	**56,597**
Transfer to expected credit losses in 12 months	283	(226)	(57)	-	-
Transfer to expected credit losses during lifetime	(121)	731	(610)	-	-
Transfer to non-performing status	(510)	(17)	527	-	-
Net remeasurement of loss allowance	(1,883)	540	4,205	160	**3,022**
Collected impaired interest	-	-	(4,286)	(48)	**(4,334)**
Write-offs and other movements	-	-	(13,327)	-	**(13,327)**
As at 31 December 2019	**5,118**	**2,359**	**31,562**	**2,919**	**41,958**

The table below shows the movement of expected credit losses of financial assets at fair value through other comprehensive income recognized in equity:

[HRK'000]	2020			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2020	**790**	**-**	**-**	**790**
Net remeasurement of loss allowance	(208)	-	-	(208)
Derecognised financial assets	(122)	-	-	(122)
As at 31 December 2020	**460**	**-**	**-**	**460**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2019			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2019	**1,361**	**-**	**-**	**1,361**
Net remeasurement of loss allowance	164	-	-	164
Derecognised financial assets	-	-	-	-
Write off	(735)	-	-	(735)
As at 31 December 2019	**790**	**-**	**-**	**790**

Financial assets at fair value through other comprehensive income by external risk classification

The table below provides information on the credit quality of a financial asset at fair value through other comprehensive income, using the external ratings - Fitch Ratings.

[HRK'000]	2019	2020
Government bonds and treasury bills	**259,831**	**259,818**
AAA	6,612	-
AA-	19,818	20,584
A+	25,234	25,840
BBB+ and lower	208,167	213,394
Corporate bonds	**34,684**	**8**
Without rating	34,684	8
Total	**294,515**	**259,826**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk

Market risk is defined as the risk that the fair value or future cashflows of a financial instrument will fluctuate as a result of changes in market prices. It includes: interest rate risk, foreign exchange risk and positional risk.

The Risk Management Sector calculates: market risk exposure, market risk limits and capital requirements for exposure to market risks.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

4.1.2.1 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub-ledger on a daily basis by monitoring the relationship between the financial assets and liabilities in foreign currency, in accordance with CNB regulations on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian National Bank. The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through a reduction or increase in placements and deposits with a currency clause, selling or buying currency or through arbitration - selling one currency for another.

The Risk Management Sector controls the compliance with limits on a daily basis, and monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

The exposure in currencies other than EUR and HRK is below 5% of assets per single currency. Banks assets in other currencies include cash and deposits with other banks. Regarding other currencies, most of them refer to deposits in US dollar and swiss francs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis

The Bank manages currency risk through a range of measures, including a currency clause, which has the same effect as denominating assets in HRK in other currencies.

[HRK'000]	31.12.2020 HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	148,658	-	-	-	148,658
Cash and accounts with banks	5,590	-	100,899	15,526	122,015
Placements with other banks	-	-	477	-	477
Financial assets at fair value through OCI	143,401	43,567	104,171	-	291,139
Loans and advances to customers	71,330	112,169	250,680	-	434,179
Property and equipment	8,137	-	-	-	8,137
Intangible assets	8,480	-	-	-	8,480
Other assets	32,663		833	-	33,496
TOTAL ASSETS	**418,259**	**155,736**	**457,060**	**15,526**	**1,046,581**
LIABILITIES					
Deposits from customers	278,548	-	549,725	15,346	843,619
Deposits and borrowings from banks	920	6,280	854	-	8,054
Subordinated debt	20,000	-	27,104	-	47,104
Provisions for liabilities and charges	1,048	12	-	-	1,060
Other liabilities	4,518	519	27,154	-	32,191
Deferred tax liability	446	-	-	-	446
TOTAL LIABILITIES	**305,480**	**6,811**	**604,837**	**15,346**	**932,474**
CURRENCY GAP	**112,779**	**148,925**	**(147,777)**	**180**	**114,107**

[000 HRK]	31.12.2019 HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	149,319	-	-	-	149,319
Cash and accounts with banks	4,418	-	128,806	10,654	143,878
Placements with other banks	-	-	467	-	467
Financial assets available for sale	147,359	35,959	139,470	6,612	329,400
Loans and advances to customers	93,823	108,214	181,061	-	383,098
Property and equipment	15,623	-	-	-	15,623
Intangible assets	10,418	-	-	-	10,418
Other assets	22,178		1,247	-	23,425
TOTAL ASSETS	**443,138**	**144,173**	**451,051**	**17,266**	**1,055,628**
LIABILITIES					
Deposits from customers	275,579	-	537,982	17,139	830,700
Deposits and borrowings from banks	1,157	7,566	1,788	-	10,511
Subordinated debt	20,000	-	26,765	-	46,765
Provisions for liabilities and charges	2,660	19	159	-	2,838
Other liabilities	6,063	919	26,851	-	33,833
Deferred tax liability	357	-	-	-	357
TOTAL LIABILITIES	**305,816**	**8,504**	**593,545**	**17,139**	**925,004**
CURRENCY GAP	**137,322**	**135,669**	**(142,494)**	**127**	**130,624**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.2 Price risk

Price risk is the risk of loss arising from changes in the price of a financial instrument. Primary exposure to positional risk comes from shares in investment funds and debt securities at fair value through other comprehensive income. Shares in investment funds mainly relate to cash funds where no significant fluctuations in value. The Bank manages the risks arising from the change in their fair value by continuously following changes in share price and investment returns and reports to the ALCO. At least once a year Market and Operational Risk department and Risk Control department conducts stress testing on fixed income securities portfolio. Stress testing includes at least the sensitivity analysis and relates to the impact of significant changes in interest rates on portfolio value and profit / loss.

4.1.2.3 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank's records.

In line with prudential interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

For placements with corporate clients, the majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's policies, except when, for competitive reasons, fixed interest rates are contracted.

The model for measuring and monitoring interest rate risk exposure measurements includes two basic measures:

1) A measure of the economic value of equity (EVE), that is, the change in the net present value of interest rate sensitive instruments over their remaining term as a result of changes in interest rates. The change in EVE is the change in the net present value of all cash flows arising from assets, liabilities and off-balance sheet items in the Bank's ledger resulting from the change in interest rates, assuming that all positions in the Bank's book expire. The Bank determines the change in economic value using six interest rate shock scenarios.

2) A measure of profit or a measure of change in expected future profitability over a period of time as a result of changes in interest rates. The change in net interest income using the standard parallel shift is calculated by approximating changes in net interest income such that each net position is multiplied by a corresponding change in the interest rate.

<u>Measure of the economic value of capital</u>

The Bank uses six interest rate shock scenarios to measure the economic value of equity (EVE):

1. parallel shock up
2. parallel shock down
3. steepener shock, short-term rates down and long-term rates up
4. flattener shock, short-term rates up and long-term rates down
5. shock of rising short-term interest rates
6. shock of falling short-term interest rates

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

<u>Profit measure</u>

A change in net interest income is a short-term measurement of the effect of a change in interest rates on net interest income and net interest margin over a 12-month period. The analysis assumes a parallel shift of the yield curves. The Bank use the amount of interest rate shocks prescribed in Annex III. - Standardized interest rate shock scenarios from the Guidelines (EBA/GL/2018/02). The Bank defines the limits on the results of the standard simulation of net interest income in relation to the planned net interest income for the current year and the planned net interest margin.

The results of the Internal interest rate risk exposure in the banking book are presented to the ALCO Committee quarterly. In the event that internal limits are exceeded, the Market and Operational Risks and Risk Control Departments reports to ALCO on the internal limits being exceeded and proposes measures to reduce the Bank's exposure to interest rate risk.

Interest rate risk stress test

The Market and Operational Risk Department performs stress test at least once a year. Given that changes in interest rate can have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis

The following tables present the Bank's financial assets and financial liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing, expect for demand deposits which are presented in category *from 3 months to 1 year.*

								31 December 2020
[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing	Total	Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	43,551	-	-	105,107	**148,658**	-
Placements with other banks	477	-	-	-	-	-	**477**	477
Cash and accounts with banks	113,605	-	-	-	-	8,410	**122,015**	-
Securities	-	-	73,830	78,871	90,992	47.446	**291,139**	275,006
Loans and advances to customers	70,617	108,387	238,936	10,339	5,900	-	**434,179**	50,627
Other assets	-	-	-	-	-	33,496	**33,496**	-
TOTAL FINANCIAL ASSETS	**184,699**	**108,387**	**356,317**	**89,210**	**96,892**	**194,459**	**1,029,964**	**326,110**
FINANCIAL LIABILITIES								
Deposits from customers	65,237	78,665	633,447	42,074	19,078	5,118	**843,619**	435,076
Deposits and borrowings from banks	637	309	1,082	3,738	2,286	2	**8,054**	6,652
Subordinated debt	-	2,899	24,118	20,000	-	87	**47,104**	24,406
Provisions for liabilities and expenses	-	-	-	-	-	1,060	**1,060**	-
Other liabilities	-	-	-	-	-	32,191	**32,191**	-
Deffered tax liability	-	-	-	-	-	446	**446**	-
TOTAL FINANCIAL LIABILITIES	**65,874**	**81,873**	**658,647**	**65,812**	**21,364**	**38,904**	**932,509**	**466,134**
INTEREST GAP	**118,825**	**26,514**	**(302,330)**	**23,398**	**75,528**	**155,555**	**97,455**	**(140,024)**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing	Total	31 December 2019 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	-	-	-	149,319	**149,319**	-
Placements with other banks	467	-	-	-	-	-	**467**	467
Cash and accounts with banks	143,878	-	-	-	-	-	**143,878**	-
Securities	-	-	14,960	87,567	182,283	44,590	**329,400**	284,817
Loans and advances to customers	76,277	32,639	207,348	54,234	10,249	2,351	**383,098**	70,866
Other assets	-	-	-	-	-	23,425	**23,425**	-
TOTAL FINANCIAL ASSETS	**220,622**	**32,639**	**222,308**	**141,801**	**192,532**	**219,685**	**1,029,587**	**356,150**
FINANCIAL LIABILITIES								
Deposits from customers	227,483	81,337	431,419	49,735	35,005	5,721	**830,700**	528,509
Deposits and borrowings from banks	1,596	306	1,182	2,888	4,526	13	**10,511**	10,498
Subordinated debt	-	-	22,328	4,351	20,000	86	**46,765**	24,351
Provisions for liabilities and expenses	-	-	-	-	-	2,838	**2,838**	-
Other liabilities	-	-	-	-	-	33,833	**33,833**	-
Deffered tax liability	-	-	-	-	-	357	**357**	-
TOTAL FINANCIAL LIABILITIES	**229,079**	**81,643**	**454,929**	**56,974**	**59,531**	**42,848**	**925,004**	**563,358**
INTEREST GAP	**(8,457)**	**(49,004)**	**(232,621)**	**84,827**	**133,001**	**176,837**	**104,583**	**(207,208)**

*includes impairment of performing loans, past due principal of performing loans, accrued interest and impairment of interest

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk

Liquidity risk arises through 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:

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - financial instruments liquidity risk.

Liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Liquidity Risk Management Policy and Strategy,
- Procedure for stress testing
- Procedure for the Bank's Liquidity Management,
- Plan for Liquidity crisis.

Internal acts are proposed by the Risk Management Sector and approved by the Bank's Management Board. In accordance with changes, the Risk Management Sector proposes revisions of internal acts.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- monitoring that minimum 17% of foreign currency liabilities is held as short-term foreign currency assets,
- monitoring liquidity reserve requirements in HRK,
- monitoring liquidity reserve requirements in foreign currency,
- LCR.

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated debt and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank's organization and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant functions for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of said impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Risk Management Sector. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:

- current market movements;
- other movements historically significant for the Bank's liquidity;
- future predictions based on available information significant for the Bank's liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Risk Management Sector and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Maturity analysis

The tables below present the assets and liabilities of the Bank based on the remaining contractual maturity as of 31st December 2020 and 31st December 2019. Despite the maturity mismatch of assets and liabilities, the expected cash flows on a particular financial asset and liability differ significantly from the contractual cash flows. Obligatory reserve is presented in the category up to one month and not according to the maturity of the related liabilities. The Bank expects that demand deposits will not significantly oscillate and will not be withdrawn immediately. Assets and liabilities presented below are based on the Bank's carrying values.

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31 December 2020 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	148,658	-	-	-	-	**148,658**
Placements with other banks	477	-	-	-	-	**477**
Cash and accounts with banks	122,015	-	-	-	-	**122,015**
Securities	32,215	161	31,361	62,524	164,878	**291,139**
Loans and advances to customers	6,413	14,149	72,497	180,246	160,874	**434,179**
Other assets	5,224	2,310	185	733	25,044	**33,496**
TOTAL FINANCIAL ASSETS	**315,002**	**16,620**	**104,043**	**243,503**	**350,796**	**1,029,964**
FINANCIAL LIABILITIES						
Deposits from customers	330,390	79,058	306,297	106,566	21,308	**843,619**
Deposits and borrowings from banks	639	309	1,082	3,738	2,286	**8,054**
Subordinated debt	-	2,911	1,583	19,999	22,611	**47,104**
Other liabilities	2,739	1,325	27,479	560	88	**32,191**
Provisions for liabilities and expenses	150	-	444	311	155	**1,060**
Deffered tax liability	-	-	-	446	-	**446**
TOTAL FINANCIAL LIABILITIES	**333,918**	**83,603**	**336,885**	**131,620**	**46,448**	**932,474**
MATURITY GAP	**(18,916)**	**(66,983)**	**(232,842)**	**111,883**	**304,348**	**97,490**
OFF- BALANCE SHEET						
Guarantees	3,032	-	1,848	350	-	5,230
Overdrafts	8,398	-	128	528	3,787	12,841
TOTAL OFF-BALANCE SHEET	**11,430**	**-**	**1,976**	**878**	**3,787**	**18,071**

Although there is significant presentational liquidity gap for the period up to one year, the Bank does not expects that demand deposits to be withdrawn immediately. Furthermore, the Bank can adjust the liquidity position by selling financial assets with maturity above 1 year.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31. December 2019 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	149,319	-	-	-	-	**149,319**
Placements with other banks	467	-	-	-	-	**467**
Cash and accounts with banks	143,878	-	-	-	-	**143,878**
Securities	35,786	1,263	22,501	87,567	182,283	**329,400**
Loans and advances to customers	39,809	4,627	26,867	97,940	213,855	**383,098**
Other assets	1,776	36	1,924	-	19,689	**23,425**
TOTAL FINANCIAL ASSETS	**371,035**	**5,926**	**51,292**	**185,507**	**415,827**	**1,029,587**
FINANCIAL LIABILITIES						
Deposits from customers	226,407	82,064	346,716	139,682	35,831	**830,700**
Deposits and borrowings from banks	1,596	316	1,185	2,888	4,526	**10,511**
Subordinated debt	-	-	-	4,437	42,328	**46,765**
Other liabilities	3,074	559	29,118	346	736	**33,833**
Provisions for liabilities and expenses	-	1,840	381	506	111	**2,838**
Deffered tax liability	-	-	-	357	-	**357**
TOTAL FINANCIAL LIABILITIES	**231,077**	**84,779**	**377,400**	**148,216**	**83,532**	**925,004**
MATURITY GAP	**139,958**	**(78,853)**	**(326,108)**	**37,291**	**332,295**	**104,583**
OFF- BALANCE SHEET						
Guarantees	326	-	5,178	1,300	-	6,804
Overdrafts	13,196	-	-	3,090	6,983	23,269
TOTAL OFF-BALANCE SHEET	**13,522**	**-**	**5,178**	**4,390**	**6,983**	**30,073**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Analysis of undiscounted cash flows of financial liabilities by remaining contracted amounts.

31 December 2020	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to costumers	330,396	79,069	306,594	107,291	21,658	845,002	843,619
Deposits and borrowings from banks	639	310	1,082	3,738	2,507	8,276	8,054
Subordinated debt	-	2,934	634	21,516	26,839	51,923	47,104
Provisions for liabilities and charges	150	-	444	311	155	1,060	1,060
Other liabilities	2,739	1,325	27,479	560	88	32,191	32,191
Differed tax liabilities	-	-	-	446	-	446	446
Total undiscounted financial liabilities	**333,918**	**83,638**	**336,233**	**133,862**	**51,247**	**938,898**	**932,474**
Off Balance-sheet	**11,430**	**-**	**1,976**	**878**	**3,787**	**18,071**	**18,071**

31 December 2019	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to costumers	226,413	82,079	347,118	140,597	36,712	832,919	830,700
Deposits and borrowings from banks	1,596	316	1,185	2,946	5,026	11,069	10,511
Subordinated debt	-	-	-	4,881	58,709	63,590	46,765
Provisions for liabilities and charges	-	920	1,302	506	111	2,839	2,838
Other liabilities	3,074	559	29,118	346	736	33,833	33,833
Differed tax liabilities	-	-	-	357	-	357	357
Total undiscounted financial liabilities	**231,083**	**83,874**	**378,723**	**149,633**	**101,294**	**944,607**	**925,004**
Off Balance-sheet	**13,522**	**-**	**5,178**	**4,390**	**6,983**	**30,073**	**30,073**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.4 Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Policy on operational risk management
- Procedure on operational risk management
- The methodology for operational risk management information system
- Directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Risk Management Sector, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Risk Management Sector reports the results of the Self Risk Assessment to the Management Board once a year.

The Risk Management Sector reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

4.1.5 Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the EU Directive (2013/36/EU, 2019/878/EU).

The basic objectives of capital management mean ensuring the following:

- the going concern assumption and
- meeting the regulatory and capital adequacy requirements

The total capital ratio as at 31 December 2020 was set at a minimum of 8%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5% and a protective layer for structural system risk of 1.5%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Capital adequacy (continued)

Total capital is determined as a category of capital that is managed by the Bank and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

For the purpose of calculating capital adequacy, in 2018 the Bank has decided to adopt a "static approach" that allows the Bank to gradually incorporate the effects of the first-time adoption of the Decision on classification, which partially incorporates the effects of IFRS 9, on the calculation of regulatory capital by 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

(HRK 000) CAPITAL ADEQUACY	31 December 2019	31 December 2020
TIER 1 CAPITAL	**125,979**	**110,704**
TIER 1 CAPITAL – COMMON EQUITY	**125,979**	**110,704**
Capital instruments eligible as CET1 Capital	326,318	326,318
Accumulated loss	(201,900)	(218,492)
Accumulated other comprehensive losses	1,981	2,475
Other reserves	3,792	3,792
(-) Goodwill	-	-
(-) Other intangible assets	(10,418)	(8,480)
Other transitional adjustments to CET 1 Capital	6,206	5,091
TIER 1 CAPITAL - ADDITIONAL	**-**	**-**
TIER 2 CAPITAL	35,150	26,004
TOTAL REGULATORY CAPITAL	**161,129**	**136,708**
Risk weighted assets		
Credit risk weighted assets	562,689	620,794
Exposure for operational risk	92,549	71,086
Exposure for FX risk	4,409	4,002
TOTAL RISK WEIGHTED ASSETS	**659,647**	**695,882**
COMMON EQUITY TIER 1 CAPITAL RATIO	**19.10%**	**15.91%**
TIER 1 CAPITAL RATIO	**19.10%**	**15.91%**
TOTAL CAPITAL RATIO	**24.43%**	**19.65%**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardize the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The Bank actively manages the diversification of the loan portfolio and limits the concentration limits, thus adjusting the structure and quality of the loan portfolio or reducing the credit risk.

For the purpose of defining the Bank's exposure to risk, limits for certain types of exposure are determined, depending on the geographical location of the debtor, the activity, the type of placements and the method of repayment of the placements.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Risk Management Sector reports the concentration risk to Management Board, Credit Committee and the Asset and Liability Management Committee on a monthly/quarterly basis.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk (continued)

Concentration risk is also monitored on a sector basis, as shown in the following table where the numbers are presented on a gross basis:

GROSS EXPOSURE (HRK)	2020	%	2019	%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1,473	0.32%	1,483	0.35%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	52,673	11.01%	44,483	10.47%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	358	0.07%	751	0.18%
FINANCIAL AND INSURANCE ACTIVITIES	60,069	12.56%	42,119	9.91%
CONSTRUCTION	36,603	7.65%	12,420	2.92%
INFORMATION AND COMMUNICATION	510	0.11%	21,389	5.03%
PUBLIC ADMINISTRATION	4	0.00%	5	0.00%
OTHER SERVICE ACTIVITIES	6,627	1.39%	6,490	1.53%
AGRICULTURE, FORESTRY AND FISHING	5,701	1.19%	6,119	1.44%
REAL ESTATE ACTIVITIES	123,612	25.85%	86,796	20.41%
MANUFACTURING	55,389	11.58%	30,923	7.28%
TRANSPORTATION AND STORAGE	30,170	6.31%	-	0.00%
MINING AND QUARRYING	-	0.00%	46	0.01%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	14,937	3.12%	67,130	15.79%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	55,665	11.64%	53,606	12.61%
RETAIL	34,413	7.20%	51,296	12.07%
TOTAL	**478,204**	**100.00%**	**425,056**	**100.00%**

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The management of the Bank 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 the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty.

The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. Significant judgments relating to allowance for credit losses are particularly complex in the current uncertain environment. The COVID-19 pandemic has continued to evolve and the economic environment in which we operate could be subject to sustained volatility, which could continue to impact our financial results, as the duration of the COVID-19 pandemic, and the effectiveness of steps undertaken by governments and central banks remains uncertain. We continue to monitor and assess the impacts of the COVID-19 pandemic on our critical accounting judgments, estimates and assumptions.

Significant judgments made in determining the most appropriate methodology for estimating the fair value of foreclosed assets is also described below. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test (SPPI test)

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Bank considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

Impairment of financial assets

Significant Increase in Credit Risk

The basic criteria for assessing significant increases in credit risk are days past due. The Bank considers that the credit risk has increased considerably after the initial recognition if any of the following occurs:

- at the reporting date the borrower is more than 30 days past due (based on materiality threshold), but is still within a period not exceeding 90 days and
- in the last 3 months the borrower was past due for more than 30 days (based on materiality threshold) but did not exceed 90 days past due.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Significant Increase in Credit Risk (continued)

In addition to days past due, the Bank uses qualitative indicators to determine a significant increase in credit risk such as a breach in contractual financial covenants, additional borrowing or third party liability, loss of license, concession and similar permits, which may negatively affect client business etc

Definition of default

The Bank considers that default status have occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfill its overdue obligation for more than 90 days (based on materiality threshold) under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries

- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Measurement of Expected Credit Loss

For exposures classified as Stage 1 and Stage 2, expected credit loss is calculated as the product of 12-month PD multiplied with LGD and EAD. Lifetime ECL is calculated as a product of the lifetime PD and LGD and the amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the Lifetime PD with LGD and EAD. Exposure at default (EAD) is the gross book value of exposure at the reporting date

Assets that are classified in business model ATR (amortized cost), and refers to the corporate loan portfolio is divided into 4 homogeneous groups (pools) by product type, while the retail portfolio constitutes of one separate homogeneous group (pool). Probability of default (PD) provides probability that the borrower will not be able to meet its obligations. For the purpose of estimating 12M ECLs and LT ECLs for the ATR portfolio, models based on historical data are used, with conservative margin and adjustments for future macroeconomic developments.

The Bank calculates the probability of default over a specified period of time: one year PD12 - 12 months or lifetime PD - for the duration of the Life Time PD for each homogeneous group, based on the calculated historical default rate (DR) at the loan level. The calculation of the historical DR is calculated as the ratio of the sum of the placement parties that had the status of default and the sum of the total number of parties in the same period.

Due to the small amount of data and the oscillations between the maximum and minimum historically realized values in calculating PD, the calculated DR is increased by the margin of conservatism. The conservative margin is calculated as the standard deviation on the calculated DRs for each period included in the calculation of the DR average. The calculated standard deviation represents the percentage change on the calculated DR. The Bank does not currently have sufficient qualitative DR historical data for more than 5 years and the calculation of LFPD after 5 years is the result of extrapolation based on the calculated PD (from 12M to 5Y).

The Bank monitors macroeconomic developments primarily through the CNB's publications and the Macroeconomic publication forecasts and trends. The main macroeconomic indicators monitored are GDP, consumer price index and employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, it is taken into account only the movement of GDP as the most significant macroeconomic variables. PD is assessed in the baseline and negative and optimistic scenarios whereby each scenario is given a certain weight of significance, based on expert assessment taking into account the likelihood of a recession, rating outlook credit rating agency and the time evolution of the probability weights of each scenarios.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Measurement of Expected Credit Loss (continued)

To determine the amount of PD (probability of default) for exposures to central governments, central banks and financial institutions, ie exposures that have the rating of an external institution for credit risk assessment, the Bank uses data available on the website Moody's Investor Service - Annual Default Study Alphanumeric Rating Migration Rates).

LGD (Loss Given Default) represents a loss due to default status. Accurate LGD estimates of "default" bank claims are important for determining the required loan loss reserves, further for calculating appropriate capital, and determining the fair price of loans.

For exposures classified in corporate homogeneous pools with an exposure which exceeds HRK 1 million, the Bank calculates an individual LGD using Scenario 1, Scenario 2 and Scenario 3. For exposures less than 1 million, the Bank applies a unique percentage of LGD amounting to 45% in accordance with the Basel Committee on Banking Supervision Discussion paper Regulatory treatment of accounting provisions. The Bank uses 3 scenarios when calculating individual LGDs, with methodology depending on the type of exposure; i) exposures granted on the basis of the Debtor / Debtors / Guarantors' cash flow, excluding contractual covenants specifying the minimum level of EBITDA or the maximum level of indebtedness for the duration of the contractual relationship; and ii) exposures representing project and real estate financing. Each scenario has a specific weighting assigned to it to determine the final LGD. The weighting assigned to each scenario is the result of the proportion of truly closed default exposures in each of the three scenarios (taking into account closed default exposures). For exposures related to syndicated loans with a mother company, the Bank uses the calculation of LGD from mother company.

For the purposes of calculating the LGD for a homogeneous population group, the Bank divided the portfolio into secured exposures and unsecured exposures. The Bank calculates LGDs at the individual level for all secured exposures, regardless of the level of exposure, taking into account only the recoverability from residential property. For unsecured exposures, the Bank uses a single LGD percentage of 50%.

Off-balance sheet items are classified into the appropriate risk categories on the basis of which the credit institution is exposed to credit risk due to the inability to repay outflows that may occur or that arise from the payment of assumed off-balance sheet liabilities. In assessing provisions for off-balance sheet items, the Bank applies the conversion factor 1 prescribed by the Decision on the classification of exposures to risk categories and the method of determining credit losses. For off-balance sheet exposures based on issued guarantees and letters of credit that are classified into risk sub-categories A-1 and A-2, the Bank uses a single rate of 0.8% of the exposure amount. For off-balance sheet exposures arising from overdrafts and unused loans, the Bank applies the calculated PD and LGD as well as the balance sheet portion of exposures.

Impairment allowance on assets individually assessed as credit-impaired is based on the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed separately, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The Bank's management believes that the recognised expected credit losses and provisions are sufficient.

Valuation of foreclosed assets

The Bank occasionally acquires land and properties in settlement of certain loans and advances. Real estate is stated at the lower of the carrying value of the related loans and advances at the date of settlement and the net realisable value of such assets. When assessing the valuation of foreclosed assets, the Bank engages chartered surveyors, and subsequently reviews them and compares them with the carrying amount. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

The Bank did not recognise deferred tax asset on tax losses carried forward due to history of recurring past losses.

Provisions for court cases

Management Board believes that court settlement provisions are sufficient at the reporting date. The Bank conducts an individual assessment of all legal disputes against the Bank. The initial assessment is carried out by the Department of Legal Affairs of the Bank, and the final decision on the risk group and the amount of the provision is made by the Management Board

At 31 December 2020 a total of 8 court proceedings against the Bank were conducted.

In the 2 civil cases there is a first-instance verdict issued in favour of the Bank.

In one court case the first instance verdict against the Bank was brought and therefore the case was relocated to risk category B. All other disputes are allocated in risk category A.

As explained in Note 17, the Bank provided HRK 308 thousand (2019: HRK 506 thousand), for principal and interest for liabilities from court cases, which management estimates to be sufficient. These amounts represent the best estimate of the Bank for losses in court disputes, although the actual loss on the Bank's court litigation may be significantly different. It is not practical for the management to assess the financial impact of changes in assumptions on the basis of which management estimates the need for reservations.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Determination of control

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Bank regularly reassess whether they have control over significant activities of debtors in financial difficulties which are unable to regularly service its liabilities to the Bank. The Bank concluded in 2020 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2019.

Internally developed software-determination of capitalisation criteria and estimated useful life

Intangible assets include internally developed software of total capitalized value of HRK 19.6 million. The Bank uses software in its business, and it is transferred to use according to the completion of individual modules. From 01.01.2020. all internally developed software was put into use since all modules are in production.

Software development costs are capitalized when the criteria in IAS 38 are met *Intangible assets*. Such assets are then amortized linearly over a useful life of 10 years. Management Board re-evaluates the remaining useful life of the software at each reporting date.

There is judgement involved in determining an appropriate framework to consider which expenditure requires capitalisation and which should be expensed. Note 12 of the financial statements provides details of the amounts capitalised.

Notes to the financial statements (continued)

6. AMOUNTS WITH THE CROATIAN NATIONAL BANK

[HRK'000]	31 December 2019	31 December 2020
Giro accounts with CNB	**85,929**	**105,107**
in HRK	86,622	105,336
in foreign currency	-	-
ECL allowance	(693)	(229)
Obligatory reserve with CNB	**63,390**	**43,551**
in HRK	63,901	43,646
in foreign currency	-	-
ECL allowance	(511)	(95)
TOTAL	**149,319**	**148,658**

Movements in loss allowance (Stage 1) of amounts with the CNB are presented below:

[HRK'000]	2019	2020
As at 1 January	**1,287**	**1,204**
Net reversal of impairment losses	(83)	(880)
As at 31 December	**1,204**	**324**

Banks are obliged to calculate obligatory reserve in HRK and foreign exchange at the rate of 9% of HRK and foreign currency funds (31 December 2019: 12%) as of 31 December, 2020.

The kuna part of the compulsory reserve thus calculated is increased by 75% (December 31, 2019: 75%) computed reserve requirements on foreign currencies. 70% of the kuna part of the reserve requirement is allocated to a special account with the CNB, while the rest is maintained by the average daily balance on the settlement account and on the account of funds for covering the negative balance on the current account in the National Clearing System.

The portion of accrued foreign currency reserves is reduced by 75% (31 December 2019: 75%), which is accounted for by the calculated portion in kuna while the remaining 25% is held maintains the average daily balance of liquid foreign currency receivables in accordance with the Decision on Foreign Exchange Reserve.

The obligatory reserve did not earn interest in 2020 (2019: nil).

Notes to the financial statements (continued)

7. CASH AND ACCOUNTS WITH OTHER BANKS

[HRK'000]	31 December 2019	31 December 2020
Cash in hand	**8,189**	**8,778**
in HRK	4,418	5,590
in foreign currency	3,771	3,188
Giro accounts with other banks	**135,689**	**113,237**
with foreign banks	49,408	49,408
ECL allowance	(395)	(247)
with domestic banks	87,375	64,197
ECL allowance	(699)	(121)
TOTAL	**143,878**	**122,015**

Movements in loss allowance (Stage 1) of Giro accounts with other banks are presented below:

[HRK'000]	2019	2020
As at 1 January	**904**	**1,094**
Net impairment loss / (reversal of impairment loss)	190	(726)
As at 31 December	**1,094**	**368**

8. PLACEMENTS WITH OTHER BANKS

[HRK'000]	31 December 2019	31 December 2020
Short-term	**467**	**477**
with domestic banks	471	477
ECL allowance	(4)	-
TOTAL	**467**	**477**

[HRK'000]	2019	2020
As at 1 January	**4**	**4**
Net reversal of impairment loss	-	(4)
As at 31 December	**4**	**-**

Notes to the financial statements (continued)

9. FINANCIAL ASSETS - SECURITIES

[HRK'000] SECURITIES AT FAIR VALUE THROUGH OCI	31 December 2019	31 December 2020
Financial assets at fair value through OCI	**291,428**	**257,833**
Bonds of the Croatian Ministry of Finance	206,514	211,690
Foreign government bonds	44,766	46,135
Foreign government treasury bills	6,612	-
Foreign corporate bonds	33,536	8
Of which:		
- listed	284,816	257,833
- not listed	6,612	-
Accrued interest	**3,087**	**1,993**
not past due	3,095	1,997
ECL allowance	(8)	(4)
TOTAL	**294,515**	**259,826**

[HRK'000] SECURITIES AT FAIR VALUE THROUGH PL	31 December 2019	31 December 2020
Securities measured at FV through profit or loss – cash funds (quoted)	**34,885**	**31,313**
TOTAL	**34,885**	**31,313**

Notes to the financial statements (continued)

10. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortised cost

[HRK'000]	31 December 2019	31 December 2020
Gross loans	**423,598**	**472,424**
retail	50,755	32,618
corporate	372,843	439,806
Interest receivables	**3,386**	**7,366**
ECL allowance	**(41,958)**	**(44,098)**
Gross loans	(40,566)	(42,439)
Interest receivables	(1,392)	(1,659)
Deferred income from fees	**(1,928)**	**(1,513)**
TOTAL	**383,098**	**434,179**

Notes to the financial statements (continued)

11. PROPERTY AND EQUIPMENT

2020 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
Adjusted 1 January 2020	**26,356**	**7,738**	**8,709**	**1,411**	**65**	**44,279**
Additions	21	199	17	13	13	263
Write-offs and disposals	(4,994)	(354)	(861)	(59)	-	(6,268)
Transfer to use	-	-	-	-	-	-
At 31 December 2020	**21,383**	**7,583**	**7,865**	**1,365**	**78**	**38,274**
Accumulated depreciation						
At 1 January 2020	**12,669**	**7,112**	**8,080**	**795**	**-**	**28,656**
Charge for the year	4,540	402	156	157	-	5,255
Write-offs and disposals	(2,513)	(353)	(861)	(47)	-	(3,774)
At 31 December 2020	**14,696**	**7,161**	**7,375**	**905**	**-**	**30,137**
Net carrying value	**6,687**	**422**	**490**	**460**	**78**	**8,137**

2019 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
Adjusted 1 January 2019	**26,341**	**8,260**	**9,619**	**1,895**	**102**	**46,217**
Additions	15	29	68	-	-	112
Write-offs and disposals	-	(551)	(1,015)	(484)	-	(2,050)
Transfer to use	-	-	37	-	(37)	-
At 31 December 2019	**26,356**	**7,738**	**8,709**	**1,411**	**65**	**44,279**
Accumulated depreciation						
At 1 January 2019	**7,981**	**7,250**	**8,934**	**1,016**	**-**	**25,181**
Charge for the year	4,688	413	156	224	-	5,481
Write-offs and disposals	-	(551)	(1,010)	(445)	-	(2,006)
At 31 December 2019	**12,669**	**7,112**	**8,080**	**795**	**-**	**28,656**
Net carrying value	**13,687**	**626**	**629**	**616**	**65**	**15,623**

Notes to the financial statements (continued)

12. INTANGIBLE ASSETS

2020 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2020	**19,256**	**5,109**	**5,596**	**343**	**30,304**
Additions	-	-	14	-	14
Transfer into use	343	-	-	(343)	-
Write-offs	-	-	(25)	-	(25)
At 31 December 2020	**19,599**	**5,109**	**5,585**	**-**	**30,293**
Accumulated amortisation					
At 1 January 2020	**9,349**	**5,109**	**5,428**	**-**	**19,886**
Charge for the year	1,849	-	103	-	1,952
Write-offs	-	-	(25)	-	(25)
At 31 December 2020	**11,198**	**5,109**	**5,506**	**-**	**21,813**
Net carrying value	**8,401**	**-**	**79**	**-**	**8,480**

2019 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2019	**18,521**	**5,109**	**6,118**	**637**	**30,385**
Additions	187	-	-	254	441
Transfer into use	548	-	-	(548)	-
Write-offs	-	-	(522)	-	(522)
At 31 December 2019	**19,256**	**5,109**	**5,596**	**343**	**30,304**
Accumulated amortisation					
At 1 January 2019	**7,558**	**5,109**	**5,813**	**-**	**18,480**
Charge for the year	1,791	-	137	-	1,928
Write-offs	-	-	(522)	-	(522)
At 31 December 2019	**9,349**	**5,109**	**5,428**	**-**	**19,886**
Net carrying value	**9,907**	**-**	**168**	**343**	**10,418**

Notes to the financial statements (continued)

13. OTHER ASSETS

[HRK'000] OTHER ASSETS	31 December 2019	31 December 2020
Other assets	**26,249**	**36,301**
Fees receivable	1,409	2,097
Prepaid expenses	153	186
Other receivables	5,498	9,201
Collateral repossessed	19,189	24,817
Impairment allowance	**(2,824)**	**(2,805)**
TOTAL	**23,425**	**33,496**

a) *Foreclosed assets*

Foreclosed assets refer to land and real estate acquired through pledge for non-performing loans to customers. They are initial measured at a lower of net carrying amount of loans and advances balance or its fair value at the date of repossession. Subsequently their value is adjusted if there is a decrease in underlying valuation of assets.

During the year, the bank recognised additional adjustment of HRK 5,560 thousands for newly repossessed collateral. Effects are recognised in other provisions in Note 28.

b) *Movements in impairment allowance for other assets*

[HRK'000]	2019	2020
At 1 January	**2,824**	**2,824**
Increase/decrease	-	-
Write-offs	-	(19)
At 31 December	**2,824**	**2,805**

Notes to the financial statements (continued)

14. DEPOSITS FROM CUSTOMERS

[HRK'000]	31 December 2019	31 December 2020
Demand deposits	**143,138**	**264,742**
retail	36,169	46,349
in HRK	*22,436*	*28,961*
in foreign currency	*13,733*	*17,388*
corporate	106,969	218,393
in HRK	*64,804*	*91,179*
in foreign currency	*42,165*	*127,214*
Term deposits	**682,225**	**574,570**
retail	609,993	526,873
in HRK	*130,687*	*118,286*
in foreign currency	*479,306*	*408,587*
corporate	72,232	47,697
in HRK	*55,793*	*39,509*
in foreign currency	*16,439*	*8,188*
Accrued interest	**5,337**	**4,307**
TOTAL	**830,700**	**843,619**

On 31 December 2019 term deposits contain repurchase agreements in the amount of HRK 2,700 thousand, Bank did not have such contracts on 31 December 2020.

15. DEPOSITS AND BORROWINGS FROM BANKS

[HRK'000]	31 December 2019	31 December 2020
Short-term	**1,508**	**548**
in HRK	571	*548*
in foreign currency	937	-
Long-term	**8,990**	**7,504**
in HRK	583	*372*
in foreign currency	8,407	*7,132*
Of which		
Borrowings	*8,148*	*6,651*
Deposits	*2,350*	*1,401*
Accrued interest	**13**	**2**
TOTAL	**10,511**	**8,054**

Notes to the financial statements (continued)

16. SUBORDINATED DEBT

[HRK'000]	31 December 2019	31 December 2020
Subordinated debt	**46,679**	**47,017**
in HRK	20,000	20,000
in foreign currency	26,679	27,017
Accrued interest	**86**	**87**
TOTAL	**46,765**	**47,104**

In July 2014 subordinated debt contract was signed, based on which J&T Banka, Prague, has made payment in the amount of EUR 3 million, or equivalent of HRK 22.9 million, at an interest rate of Euribor 12M + 7% per annum for a period of 10 year. During 2016, a new subordinated debt contract was signed, based on which J&T Bank Prague provided additional new funds of HRK 20 million at an interest rate of 8.8% for a period of seven years.

The subordinated debt was also collected from retail customers in the total amount of EUR 584 thousand equivalent in HRK 4.4 million with a fixed interest rate of 5% and a term of 5 years.

Subordinated debt is included in the additional capital of the Bank and is amortized for the purposes of calculating capital adequacy.

Subordinated debt is subordinated to all other liabilities of the Bank.

17. PROVISIONS FOR LIABILITIES AND CHARGES

[HRK'000]	31 December 2019	31 December 2020
Provisions for legal disputes	506	308
Provisions for termination benefits and similar liabilities to employees	1,840	303
Provisions for contingent liabilities from credit risk	381	299
Provisions for contingent liabilities from other sources to individuals	111	150
TOTAL	**2,838**	**1,060**

The movement in provisions for liabilities and charges is presented below:

[HRK'000]	2019	2020
As at 1 January	**1,560**	**2,838**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 28)	244	105
- Provisions for termination benefits and similar liabilities to employees (Note 28)	1,840	303
- Increase in provisions for contingent liabilities (Note 28)	(210)	(82)
- Increase in provisions from other sources to individuals (Note 27b)	5	39
Provisions used during the year (towards employees)	(596)	(1,840)
Provisions used during the year (for legal disputes)	(5)	(303)
At 31 December	**2,838**	**1,060**

Notes to the financial statements (continued)

18. OTHER LIABILITIES

[HRK'000]	31 December 2019	31 December 2020
Trade payables	451	693
Liabilities for salaries, deductions from salaries, taxes and benefits	1,326	1,275
Deferred income	-	252
Other liabilities	28,650	29,256
Liabilities for assets in use	3,406	715
TOTAL	**33,833**	**32,191**

Other liabilities include HRK 27,133 thousands on escrow account as insurance of fulfill obligations (2019: HRK 26.793 thousands) and deposit insurance premium of HRK 438 thousands (31 December 2019: HRK 500 thousands).

19. EQUITY

19.1 Share capital

[HRK'000]	31 December 2019	31 December 2020
Share capital	307,085	307,085
TOTAL	**307,085**	**307,085**

31 December 2020	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

31 December 2019	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

Ordinary shares carry voting rights at shareholders' meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares.

Notes to the financial statements (continued)

19. EQUITY (continued)

19.2 Premium on issued shares

The premium on the issued shares was formed in previous periods as a result of the recapitalization of the Bank above the nominal value of the subscribed capital.

19.3 Other reserves

[HRK'000]	31 December 2019	31 December 2020
Reserves for treasury shares	2,557	2,557
Legal reserves	1,235	1,235
	3,792	**3,792**

Other reserves comprise of legal reserves and treasury shares reserves.

Legal reserve

The bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until reserves reach 5% of the share capital. The legal reserve may be used to cover losses of previous years if the losses are not covered by current profit for the year or if no other reserves are available.

Treasury share reserve

The reserve for treasury shares is the result of the divestments based on the previous ownership of its own shares, and subsequently sold with the net gain and re-purchase during 2018 and 2017.

19.4 Treasury shares

When the Bank purchases the share capital of the Bank (treasury shares), the paid amount represents a deductible item from the capital and reserves belonging to the Bank's shareholders until such shares are rescinded, issued or sold.

On December 31, 2020, the Bank had a total of 590,338 (31 December 2019: 590,338) treasury shares worth HRK 2,202 thousand (31 December 2019: 2,202 thousand). During 2020 and 2019 there were no changes in Treasury shares.

During the bankruptcy proceedings for the debtor Validus d.d. the Commercial Court in Varaždin granted the Bank 513,477 shares registered as debtor's bankruptcy property. Ownership rights of the property were transferred after its validation in 2018.

19.5 Fair value reserve

The Fair value reserve includes unrealized gains and losses from changes in fair value of debt securities at fair value through other comprehensive income.

19.6 Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

20. INTEREST INCOME RECOGNIZED BY USING EFFECTIVE INTEREST METHOD

[HRK'000]	2019	2020
Analysis by product	**32,142**	**24,976**
Loans and advances to customers	27,986	22,417
Deposits	6	2
Debt securities	4,150	2,550
Other	-	7
Analysis by source	**32,142**	**24,976**
Retail	4,588	3,015
Corporate	25,445	12,816
State and public sector	1,983	1,481
Financial institutions	7	2
Other	119	7,662

21. INTEREST AND SIMILAR CHARGES

[HRK'000]	2019	2020
Analysis by product	**13,226**	**8,311**
Deposits from customers	9,178	5,019
Deposits and borrowings from banks	310	212
Subordinated debt	3,535	2,992
Interest expense on lease liabilities	203	88
Analysis by source	**13,226**	**8,311**
Retail	7,881	4,061
Corporate	888	559
State and public sector	23	10
Financial institutions	4,420	3,606
Other	14	75

22. FEE AND COMMISSION INCOME

[HRK'000]	2019	2020
Payment transactions	2,047	1,299
Letters of credit and guarantee fees	186	119
Early repayment fees	902	279
Brokerage fees	3,856	1,341
Other	2,359	2,211
TOTAL	**9,350**	**5,249**

Notes to the financial statements (continued)

23. FEE AND COMMISSION EXPENSE

[HRK'000]	2019	2020
Payment transactions	462	356
Credit cards	139	100
Other	230	321
TOTAL	831	777

24. NET GAINS AND LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

[HRK'000]	2019	2020
Realised net gain / (loss) from securities at fair value through OCI	**7,283**	**(84)**
Bonds	7,283	(84)
Realised net gain from financial assets at fair value through profit and loss	**79**	**-**
Cash funds	79	-
Unrealised net gain / (loss) from financial assets at fair value through profit and loss	**(328)**	**152**
TOTAL	7,034	68

25. NET FOREIGN EXCHANGE GAINS AND FX TRADING INCOME

[HRK'000]	2019	2020
Net gain/(loss) from translation of monetary assets and liabilities	225	(91)
Net gains from trading with foreign currencies	1,752	2,492
TOTAL	1,977	2,401

Notes to the financial statements (continued)

26. OTHER INCOME

[000 HRK]	2019	2020
Rental of premises	1,467	1,366
Use of official cars	37	66
Collection of previously written off receivables	6	10
Net income from disposal of tangible and intangible assets	(5)	218
Release of accrued expenses from previous years	354	521
Other	172	553
TOTAL	**2,031**	**2,734**

27. OTHER ADMINISTRATIVE EXPENSES

a) Personnel expenses

[HRK'000]	2019	2020
Personnel expenses	**15,963**	**15,809**
- *Net salaries*	*8,485*	*8,832*
- *Contributions on and from salaries*	*4,728*	*4,611*
- *Taxes and surtaxes*	*2,193*	*1,846*
- *Other personnel expenses*	*557*	*520*
TOTAL	**15,963**	**15,809**

As at 31 December 2020, the Bank had 67 employees (31 December 2019: 71 employees).

b) Other administrative expenses

[HRK'000]	2019	2020
Services	6,710	6,752
Costs of deposit insurance	2,090	1,853
Material and other costs	944	838
Representation, advertising and sponsorship	194	276
Other administrative expenses	320	423
Car and other transportation expenses	123	100
Business trip	366	132
Other expenses	12	126
Taxes, contributions, fees	1,507	712
TOTAL	**12,266**	**11,212**

Services include intellectual services, including the audit cost. The audit fee in 2020 amounted to HRK 467 thousand, plus VAT (2019: HRK 434 thousand + VAT).

In accordance with the Deposit Insurance Act and the Methodology for calculating the degree of risk of a particular credit institution in Croatia, the deposit insurance premium is calculated as a multiplication of the premium base, the premium rate and the degree of risk.

Other expense include increase in provisions for contingent liabilities from other sources towards individuals in the amount of HRK 39 thousand (2019: HRK 5 thousand), as presented in note 17.

Notes to the financial statements (continued)

28. EXPECTED CREDIT LOSSES AND PROVISIONS

[HRK'000]	2019	2020
Specifically identified losses	**(1,262)**	**2,453**
Impairment of loans and advances to customers (Note 4.1.1)	(1,312)	4,466
Impairment of Accounts with the CNB and giro accounts and placements with other banks	107	(1,610)
Impairment of securities at fair value through OCI	153	(321)
Impairment of off-balance-sheet exposure to credit risk (Note 17)	(210)	(82)
Other provisions	**2,084**	**5,968**
Provisions for court cases (Note 17)	244	105
Provisions for termination benefits (Note 17)	1,840	303
Impairment of foreclosed assets (Note 13a)	-	5,560
TOTAL	**822**	**8,421**

29. INCOME TAX

a) Income tax expense recognised in the income statement

[HRK'000]	2019	2020
Current tax expense	-	-
Deferred tax expense	-	(283)
TOTAL INCOME TAX	**-**	**(283)**

b) Reconciliation of accounting profit and current income tax liability

[HRK'000]	2019	2020
Profit/(loss) before tax	2,017	(16,592)
Income tax at a rate of 18%	363	(2,986)
Non-deductible expenses - tax at a rate of 18%	6,602	7,533
Non-taxable income - tax rate 18%	(5,568)	(7,032)
Tax profit/(loss) for the year at a rate of 18%	1,397	(2,485)
Tax losses carried forward for which no deferred tax asset is recognized	-	2,485
Utilisation of previously unrecognised tax losses	(1,397)	-
Write-off of deferred tax assets utilised in previous years	-	(283)
Effective tax rate	-	-
TOTAL	**-**	**(283)**

The Bank has written-off during the year deferred tax assets recognised in previous years within other assets (Note 13).

Notes to the financial statements (continued)

29. INCOME TAX (CONTINUED)

The availability of tax losses in future periods, subject to change by the Ministry of Finance, gross of tax rate, are as follows:

[HRK'000]	31 December 2020
No later than 1 year	58,384
No later than 2 year	20,722
No later than 3 year	-
No later than 4 year	-
No later than 5 year	13,807
Total gross tax losses carried forward not recognised as deferred tax assets	**92,913**

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry.

c) Deferred tax liability on financial assets – amounts recognised in OCI

The Bank has recognized in its books a deferred tax liability for unrealized gains on securities measured in OCI in the amount of HRK 446 thousand in 2020 (2019: HRK 357 thousand).

[HRK '000] Items that are or may be reclassified to subsequently to profit or loss	2019	2020
Balance as at 1 January	**321**	**357**
Recognised deferred tax liability in other comprehensive income	36	89
Balance as at 31 December	**357**	**446**

Notes to the financial statements (continued)

30. BASIC AND DILUTED EARNINGS PER SHARE

For the purpose of calculating earnings per share, profit calculated as the profit for the period attributable to shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after deducting the number of ordinary treasury shares.

Since there is no effect of options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate diluted earnings per share was the same as the one used to calculate basic earnings per share. The bank has no preference shares.

	2019	2020
Profit/(loss) for the year [HRK'000]	2,017	(16,592)
Weighted average number of shares	30,708,540	30,708,540
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (in HRK)	**0.07**	**(0.54)**

	2019	2020
Number of shares as at January 1	30,708,540	30,708,540
Weighted average number of shares as at December 31	**30,708,540**	**30,708,540**

Notes to the financial statements (continued)

31. CONCENTRATION OF ASSETS AND LIABILITIES

The table below represents the concentration of the Bank's assets and liabilities towards Republic of Croatia, including state-owned institutions and central bank (before ECL allowance):

[HRK'000]	Notes	31 December 2019	31 December 2020
Giro account with CNB	6	86,622	105,336
Obligatory reserve with CNB	6	63,901	43,646
Bonds and treasury bills issued by the Ministry of Finance		208,173	213,397
Borrowings from Croatian Bank for Reconstruction and Development		(8,990)	(7,504)
TOTAL		**349,706**	**354,875**

32. CASH AND CASH EQUIVALENTS

[HRK'000]	Notes	31 December 2019	31 December 2020
Cash and giro accounts with other banks	7	144,972	122,383
Giro account with CNB	6	86,622	105,336
TOTAL		**231,594**	**227,719**

33. CONTINGENCIES

[HRK'000]	31 December 2019	31 December 2020
Guarantees	**6,804**	**5,231**
in HRK	6,804	5,231
Revolving facility	**23,269**	**12,840**
in HRK	14,344	12,840
in foreign currency	8,925	-
TOTAL	**30,073**	**18,071**

As at 31 December 2020, the Bank recognized provisions on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loan credits in the amount of HRK 299 thousand (2019: HRK 381 thousand) as presented in note 17.

Notes to the financial statements (continued)

34. RELATED PARTY TRANSACTIONS

The majority owner of the Bank is J&T Banka a.s. based in the Czech Republic and the ultimate parent is J&T Finance Group SE. The majority owner as at 31 December 2020 owned 82.55% of the Bank's shares (31 December 2019: 82.55%). With the recapitalization in 2015 and 2016 and the subordinated debt, the Bank had other banking transactions with its majority owner during the year which resulted with revenue and expenses for the year, as well as assets and liabilities at year-end.

The second largest shareholder as at 31 December 2020 is Alternative d.o.o. owning 11.63% of the shares, The remaining 5.82% of the shares were traded publicly until 3rd November 2017 and delisting from Zagreb Stock Exchange. The Bank considers its related parties are their key shareholders, their direct or indirect subsidiaries, members of the Supervisory Board and the Management Board and other management (together "key management"), close family members of key management, jointly controlled companies or companies under significant influence of the Key management members and members of their immediate families, in accordance with the definition given in the International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2020, the Bank has liabilities to key shareholders in respect of assets on current accounts and liabilities for received deposits.

Transactions related to key management in 2020 were related to the payment of regular salaries, received deposits and given loans. The Bank regulates the Proceeds through the Policy and Ordinance on measuring and rewarding the Bank's performance, organizational units and employees.

Key management includes members of the Management Board and directors responsible for areas of strategic importance. The number of key management members at 31 December 2020 is 15 (31 December 2019: 16).

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

	2019					2020				
	Assets	Liability	Revenue	Expenses	Impairment	Assets	Liability	Revenue	Expenses	Impairment
J&T Finance Group SE and affiliates										
Other income	-	-	4,959	-	(39)	-	-	2,715	-	(42)
Other receivables	-	-	-	-	-	-	-	-	-	-
Received deposits										
Giro accounts	-	1,359	-	-	-	-	1,378	-	-	-
Received loans	11,599	-	-	110	(93)	30,299	-	-	43	(242)
Subordinated debt	-	42,328	-	3,319	-	-	42,611	-	2,775	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
TOTAL	**11,599**	**43,687**	**4,959**	**3,429**	**(132)**	**30,299**	**43,989**	**2,715**	**2,818**	**(284)**
Key management personnel										
Loans and advances to customers	834	-	31	-	(7)	1,143	-	39	-	(7)
Received deposits	-	2,616	-	-	-	-	3,560	-	9	-
Compensation to key management personnel	-	1,262	-	8,862	-		571	-	7,046	-
TOTAL	**834**	**3,878**	**31**	**8,862**	**(7)**	**1,143**	**4,131**	**39**	**7,055**	**(7)**

Notes to the financial statements (continued)

35. AVERAGE EFFECTIVE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2019	2020
Assets		
Amounts with the Croatian National Bank	-	-
Placements with banks	0.16%	0.12%
Investment securities	1.59%	0.90%
Loans and advances to customers	6.03%	5.91%
Liabilities		
Deposits from customers	0.98%	0.54%
Deposits and borrowings from banks	1.86%	2.18%
Subordinated debt	7.59%	6.37%

36. OPERATING LEASE COMMITMENTS

Following table presents future minimum lease payments for which the Bank did not recognise right-of-use assets and liabilities for leases in accordance with IFRS 16:

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

Fair value represents the amount at which an asset could be exchanged, or a liability settled on normal market conditions, Financial assets through other comprehensive income are carried at fair value.

Determination of fair value and fair value hierarchy

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

- Level 1: These instruments include: liquid debt and equity securities traded on liquid markets and quoted investment in investment funds.
- Level 2: These instruments include: less-liquid debt and equity securities and derivatives valued by a model that uses input level 1 data.
- Level 3: Instruments where fair value cannot be determined directly by referring to available market information and for which different valuation techniques were used to calculate the value. Instruments classified in this category relate to a factor that is not available on the market, which has a significant impact on the fair value of the instrument itself.

There were no transfers between levels in 2020 and 2019. The tables below present the fair value of financial instruments that are not carried at fair value for the Bank, allocated by the hierarchy of fair value levels with respect to the input data used in the valuation process.

2020 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	213,394	-	-	213,394
Foreign government bonds	46,424	-	-	46,424
Foreign corporate bonds	-	-	8	8
Financial assets at fair value through profit and loss account				
Cash funds	-	31,313	-	31,313
Total financial assets at fair value	**259,818**	**31,313**	**8**	**291,139**

2019 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	208,167	-	-	208,167
Foreign government bonds	45,052	-	-	45,052
Foreign corporate bonds	-	34,684	-	34,684
Foreign treasury bills	6,612	-	-	6,612
Financial assets at fair value through profit and loss account				
Cash funds	-	34,885	-	34,885
Total financial assets at fair value	**259,831**	**69,569**	**-**	**329,400**

Level 2 comprise open-ended cash funds whose NAV is published on a daily basis.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments measured at fair value (continued)

The table below shows the reconciliation of initial and final financial instruments at level 3 of the fair value hierarchy.

	Securities	Loans and advances
As at 1 January 2019	**-**	**18,421**
Additions	-	-
Sales/Maturity	-	(18,421)
As at 31 December 2019	**-**	**-**

	Securities	Loans and advances
As at 1 January 2020	**-**	**-**
Additions	8	-
As at 31 December 2020	**8**	**-**

When discounting cash flows of assets or liabilities, the Bank uses weighted average monthly interest rates on loans and advances, ie deposits.

In assessing fair value, the Bank uses the following methods:

Cash and accounts with banks, amounts with the Croatian National Bank

The carrying values of accounts with banks and amounts with the central bank approximate to their fair values, given the short maturity of these assets.

Placements with other banks

The estimated fair value of placements with banks represents the discounted amount of future cash flow receipts. Due to their short-term character, their fair value approximates to their carrying value.

Loans and advances to customers carried at amortised cost

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Most of the Bank's loan portfolio is approved at a variable interest rate. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount, resulting from higher interest rates of the Bank than those on the market. The fair value of loans to non-performing customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument. Estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL ASSETS (continued)

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. According to the discounted cash flows, it is concluded that the fair value does not differ significantly from carrying value. Most of the customers' deposits with fixed interest rates become due within one year and consequently their fair value does not significantly differ from their carrying value.

Borrowings

Due to its short-term nature, the carrying value approximates the fair value.

Subordinated debt

Considering that there are no similar investments on the market, the management believes that the carrying value of subordinated debt approximates its fair value.

Financial instruments not valued at fair value:

	31 December 2019		31 December 2020	
	Carrying value	Fair value (Level 3)	Carrying value	Fair value (Level 3)
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	293,197	293,197	270,673	270,673
Placements with other banks	467	467	477	477
Loans and advances to customers	383,098	433,446	434,179	467,454
Total financial assets	**676,762**	**727,110**	**705,329**	**738,604**
Deposits from customers	830,700	830,700	843,619	843,619
Deposits and borrowings from banks	10,511	10,511	8,054	8,054
Subordinated debt	46,765	46,765	47,104	47,104
Total financial liabilities	**887,976**	**887,976**	**898,777**	**898,777**

Notes to the financial statements (continued)

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Bank's statement of financial position.

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements (repo contracts) are transactions in which the Bank sells a security and simultaneously contracts its re-purchase at a fixed price on a specified date in the future. The Bank continues to recognize securities sold on the basis of a sale and repurchase agreement in the statement of financial position as it assumes all the risks and rewards associated with the ownership. Received assets are recognized as financial assets and the financial liability is recognized for the obligation to pay the purchase price classified as an interest-bearing loan.
Reverse sale and repurchase agreements are transactions in which the Bank buys a security and simultaneously arranges for sale at a fixed price on a specific date in the future. The Bank holds a security instrument in the form of marketable securities based on the loans granted.
Sale and repurchase agreements and reverse sale and repurchase agreements give the Bank the ability to net these positions on a net basis in the event of non-payment by either party.

The table below shows the amount of security instruments received for the given loans with a sale and repurchase agreement and reverse the sale and re-purchase agreement and the security instruments issued for the received loans under the re-sale and re-sale contract. Days of insurance instruments include treasury bills and central government bonds.

[HRK'000]	2019	2020
Payables under sale and repurchase agreements		
Interest-bearing borrowings	2,700	-
Carrying amount of collateral provided in respect of the above relating to:		
FVOCI financial assets / securities	3,134	-

Notes to the financial statements (continued)

39. IMPACT OF COVID 19 ON THE BANK'S BUSINESS

2020 was a particularly challenging year for the Bank due to the COVID-19 pandemic. During the first half of the year, the government authorities have taken measures to contain the outbreak, which included introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries as well as the various extraordinary monetary measures taken to mitigate the financial impact on companies and individuals. Although the situation stabilised to some extent in the second half of the year as lockdowns proved reasonably effective in containing the virus, the mandatory lockdown measures imposed by government resulted in sudden and severe GDP contractions in the Croatian economy. However, government support measures acted to soften the negative effects to a certain degree.

The Bank focused on the impact of the external environment on its clients portfolio and to assess the short and medium-term credit risk implications on the corporate exposures in certain sectors, including, hospitality, transport, RE commercial (shopping malls, tenancy). On the initiative of government and regulator to provide support to parts of the economy most impacted by the COVID-19 pandemic, the Bank in Q2 2020 approved payment holidays and forbearance for the customers which were operating in industries significantly affected by the crisis, in order to ease the liquidity and operations for its clients.
Until 31 December 2020, a total of 68 client requests for moratorium were entered in the business records of the Bank, out of which 50 requests refer to retail clients (whose total underlying amount is not considered to be material) and 18 to corporate clients. As of 31 December 2020 there were 13 clients and 6 corporate clients with active moratoriums, where the corporate exposure mainly relates to clients active in tourism industry and retail industry.

In order to assess the impact of the crisis on its clients portfolio, the Bank introduced more frequent reviewing of the performance of its clients, with special priority to clients who use or have used some of the COVID-19 measures, which among other includes including all corporate clients which have used COVID-19 measures to the Monitoring list, as well as introducing a monitoring list for retail clients as a new monitoring tool. Also, in line with coordinated approach of accounting bodies and regulator, the Bank has assessed expected losses of its clients which are in moratoriums by assessing whether difficulties caused by COVID-19 represent only temporary economic shock, in which case payment holidays and concession approved to the clients were not considered to represent significant increase in credit risk.

However, to date, little real credit deterioration has occurred, largely as a result of government and bank support. Observed 30-day arrears in corporate loans in particular have remained stable. Also the average risk profile of the portfolio has broadly remained stable during the year and has not deteriorated in line with the macroeconomic crisis. Although the Bank is exposed to some of the industries hit by crisis (hospitality, retail and real-estate) through its loan portfolio, the exposures are highly collateralized, and the Bank does not have significant exposures to working capital lines and the clients are mostly part of larger groups or have solid equity background. Hence, the Bank expects its clients will be able to recover promptly and start repaying their liabilities after their moratoriums come to an end. Due to all stated above, the Management Board strongly believes that the vast majority of corporate portfolio will continue to perform after the crisis ends, and that they will remain as going concern. Moreover, there were no significant impact of the crisis on the Bank's results with regards to retail portfolio, since it only accounts for around 7% of total loan portfolio (as at 31 December 2020), and the Bank has not been approving retail loans for more than 4 years as a strategic decision to exit that market segment. In addition, taking into consideration experience from the last financial crisis, retail portfolio deterioration has been gradually qualified (high diversification) which enabled the Bank to mitigate negative effects very soon.

Despite the above, the economic environment remains uncertain and the management has applied COVID-19 specific adjustments in forward looking information in PD calculation to ensure the full potential impacts of COVID are provided for (as described in Note 4.1.1).
COVID-19 in 2020 had a negative impact on the Bank's operating (primarily interest and fee) income as well as on the amount of impairment losses on its loan portfolio (primarily as a result of impact of COVID on a few large exposures and incorporation of the effects in forward looking information on PD rate).

Notes to the financial statements (continued)

39. IMPACT OF COVID 19 ON THE BANK'S BUSINESS (continued)

In order to protect business continuity and liquidity, the Management Board is actively monitoring the situation especially considering its corporate clients to early assess any potential sign of difficulty and to be able to implement appropriate measures timely. Also, the Bank has increased monitoring of the liquidity level and the liquidity buffer on a daily basis and is regularly monitoring and evaluating potential effects on the income statement, on the RWA and on the bank's capital.

Following the introduction of COVID-19 measures to help the economy the Bank further intensified the monitoring activities of clients' portfolio, the so-called UTP analysis, with special priority to clients who use or have used some of the COVID-19 measures.

The structure of deposits is dominated by retail term deposits, which account for approximately 68% of all deposits from customers as at 31 December 2020. Mostly, retail term deposits are concentrated in the northwestern part of Croatia, in Varaždin, Zagreb and Međimurje counties and there was no significant outflow of deposits during 2020 as a result of the COVID-19 pandemic, and the Bank does not expect significant outflows of deposits in the future periods either. Not only that these regions are not as dependent on tourism and other COVID-19 affected industries, but also during the crisis as the one which is currently ongoing, the clients prefer to invest their funds in deposits, as other investment forms, such as real-estate, investment funds, shares etc., prove to be unstable and highly volatile. Corporate deposits are also stable, up slightly from end of 2019. The Bank does not experience any significant outflows of deposits, and in case of approval of the new loans the Bank will thoroughly plan its liquidity. The level of liquidity is assessed by the Management Board as high. It is monitored on a daily basis and no significant negative impact on liquidity is expected.

As disclosed in Note 4.1.5, the Bank's capital Tier 1 adequacy ratio as at 31 December 2020 amounted to 15.91%. Based on the information currently available, future business plans, analysis of the current portfolio of clients and considering the actions initiated by the Management Board, the Bank does not anticipate further significant negative impacts of the COVID-19 pandemic outbreak on the Bank's operations, capital adequacy, financial position and operating results. In management's view, the above factors support the assertion that the Bank will have sufficient resources to continue for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

However, the Management Board cannot exclude the possibility that a prolonged negative period of reduced economic activity, escalating and strengthening measures or the consequent negative effects of such measures on the economic environment, could have adverse effects on the Bank and its capital adequacy, financial position and operating results in the mid-term and long term. Management is closely monitoring the situation and will respond, as appropriate, with measures to mitigate the adverse effects of any events or different circumstances.

Additional information on the impact of the COVID-19 pandemic on the Bank's operations is contained in the Management Report, and Basis of preparation – Going concern.

40. EVENTS AFTER THE REPORTING DATE

There were no significant reportable events after the reporting period.

Additional reports for the Croatian National Bank

Supplementary financial statements prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020) are presented below:

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2020

	2020	2019
Assets		
Cash, deposits with the Croatian National Bank and other demand deposits	227,122	229,807
Cash in hand	*8,778*	*8,189*
Deposits with the Croatian National Bank	*138,562*	*125,902*
Other demand deposits	*79,783*	*95,716*
Financial assets held for trading	-	-
Derivatives	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Non-financial assets mandatorily measured at fair value through profit or loss	31,313	34,885
Equity instruments	*31,313*	*34,885*
Debt securities	-	-
Loans and advances	-	-
Financial assets designated at fair value through profit or loss	-	-
Debt securities	-	-
Loans and advances	-	-
Financial assets at fair value through other comprehensive income	259,826	294,515
Equity instruments	-	-
Debt securities	*259,826*	*294,515*
Loans and advances	-	-
Financial assets at amortized cost	480,329	448,422
Debt securities	-	-
Loans and advances	*480,329*	*448,422*
Derivatives – hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in subsidiaries, joint ventures and associates	-	-
Tangible assets	8,871	16,466
Intangible assets	8,480	10,418
Tax assets	8	297
Other assets	6,549	2,461
Non-current assets and disposal groups classified as held for sale	24,083	18,357
Total assets	**1,046,581**	**1,055,628**

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2020 (continued)

	2020	2019
Liabilities		
Financial liabilities held for trading	-	-
Derivatives	-	-
Short positions	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities measured at amortized cost	899,492	891,383
Deposits	*898,777*	*887,976*
Debt securities issued	-	-
Other financial liabilities	*715*	*3,407*
Derivatives – Hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Provisions	1,060	2,838
Tax liabilities	481	357
Share capital repayable on demand	-	-
Other liabilities	31,476	30,426
Liabilities included in disposal groups classified as held for sale	-	-
Total liabilities	**932,509**	**925,004**
Equity		
Share capital	307,085	307,085
Share premium	21,435	21,433
Equity instruments issued other than capital	-	-
Other equity	-	-
Accumulated other comprehensive income	2,454	2,414
Retained earning	(201,900)	(203,917)
Revaluation reserves	-	-
Other reserves	3,792	3,794
(-) Treasury shares	(2,202)	(2,202)
Profit or loss attributable to owners of the parent	(16,592)	2,017
(-) Interim dividends	-	-
Minority interests [Non-controlling interests]	-	-
Total equity	**114,072**	**130,624**
Total liabilities and equity	**1,046,581**	**1,055,628**

Additional reports for Croatian National Bank (continued)

Income statement for the period ended 31 December 2020

	2020	2019
Interest income	25,024	32,158
(Interest expense)	(8,333)	(13,251)
(Return on equity that is returned on demand)	-	-
Dividend income	-	-
Fee and commission income	5,309	9,509
(Fee and commission expense)	(789)	(832)
Gains or (–) losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net	(84)	7,283
Gains or (–) losses on financial assets and financial liabilities held for trading, net	2,492	1,752
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	152	(249)
Gains or (–) losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or (–) losses from hedge accounting, net	-	-
Foreign exchange differences (gains or losses), net	(62)	(830)
Gains or losses on discounting nonfinancial assets, net	219	1
Other operating income	2,515	2,036
(Other operating expenses)	(822)	(3,609)
Total operating income, net	**25,621**	**33,968**
(Administrative expenses)	(24,228)	(24,510)
(Payment commitments to resolution funds and deposit guarantee schemes)	(1,861)	-
(Depreciation)	(7,316)	(7,518)
Gains or losses due to changes, net	-	-
(Provisions or cancellation of provisions)	(324)	(850)
Impairment or reversal of financial assets that are not measured at fair value through profit or loss	(2,639)	934
Impairment or reversal of investments in subsidiaries, joint ventures nad associates	-	-
Creation or release of impairment of nonfinancial assets	(5,560)	-
Negative goodwill recognized in profit or loss	-	-
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method	-	-
Profit or loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business	(2)	(7)
Profit or loss before operating taxes that will continue	**(16,309)**	**2,017**
Tax expense or income related to operating profit or loss that will continue	(283)	-
Profit or loss before operating taxes that will continue	**(16,592)**	**2,017**
Profit or loss before operating taxes that will not continue	-	-
Profit or loss before operating taxes that will not continue	-	-
Tax expense or income related to business that will not continue	-	-
Profit or loss for the year	**(16,592)**	**2,017**
It belongs to minority interest (non-controlling interest)	-	-
It belongs to the owners of the parent company	-	-

Additional reports for Croatian National Bank (continued)

Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020	2019
Net profit/(loss) for the period	**(16,592)**	**2,017**
Other comprehensive income	**75**	**(407)**
Items which will not be subsequently reclassified in profit or loss	-	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on pension plans under the sponsorship of the employer	-	-
Non-current assets and disposal groups intended for sale	-	-
Share of other recognized income and expenses from entities accounted by equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	-	-
Items that are or may be reclassified to profit or loss	**75**	**(407)**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Cash flow hedges [effective portion]	-	-
Hedging instruments [not designated elements]	-	-
Debt instruments at fair value through other comprehensive income	164	(371)
Non-current assets and disposal groups held for sale	-	-
Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	(89)	(36)
Total comprehensive income for the year	**16,517**	**1,610**
Attributable to minority interest (non-controlling interest)	-	-
Attributable to owners of the parent company	-	-

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2020

	2020	2019
Business activities according to the direct method		
Interest and similar income received	-	-
Fee and commission income received	-	-
(Interest and similar expenses paid)	-	-
(Fees and commissions paid)	-	-
(Paid operating expenses)	-	-
Net gains/(losses) from financial assets at fair value through profit or loss	-	-
Other income	-	-
(Other expenses)	-	-
Business activities according to the indirect method		
Profit/(loss) before tax	(16,592)	2,017
Adjustments:		
Impairment losses	2,560	(2,168)
Depreciation and amortization	12,876	7,518
Unrealized (gains)/losses on securities at fair value through profit or loss	-	-
(Gains)/losses from sale of tangible assets	-	-
Other (gains)/losses	62	830
Changes in assets and liabilities due to operating activities		
Deposits with the Croatian National Bank	20,255	1,914
Deposits with banking institutions and loans to financial institutions	(1,609)	1,789
Loans and advances to other clients	(45,927)	122,859
Securities and other financial instruments at FVOCI	36,065	(59,768)
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments at fair value through profit or loss which are not actively traded	3,762	(24,601)
Securities and other financial instruments mandatorily at FVTPL	-	-
Securities and other financial instruments at amortized cost	-	-
Other operating assets	(5,086)	989
Deposits from financial institutions	(3,930)	(2,266)
Other clients demand deposits	58,166	5,593
Other clients savings deposits	(111,740)	(85,119)
Other clients term deposits	61,978	24,878
Derivative financial liabilities and other liabilities held for trading	-	-
Other operating liabilities	(4,623)	26,817
Interest received from operating activities [indirect method]	-	-
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	-	-
(Income tax paid)	-	-
Net inflow/(outflow) of cash from operating activities	**6,217**	**21,282**

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2020 (continued)

	2020	2019
Investing activities		
Cash receipts from/(payments to acquire) tangible and intangible assets	(11,002)	(9,098)
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	-
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments from investing activities	-	-
Dividends received from investing activities	-	-
Other receipts from/(payments for) investments	-	-
Net cash flow from investing activities	**(11,002)**	**(9,098)**
Financing activities		
Net increase/(decrease) in received loans from financing activities	-	-
Net increase/(decrease) in issued debt securities	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-
Proceeds from issue of share capital	-	(2,025)
(Dividends paid)	-	-
Other proceeds/(payments) from financing activities	-	2,025
Net cash flow from financing activities	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**(4,785)**	**12,184**
Cash and cash equivalents at the beginning of the year	**231,595**	**218,821**
Effect of foreign exchange differences on cash and cash equivalents	909	590
Cash and cash equivalents at the end of the year	**227,719**	**231,595**

Additional reports for Croatian National Bank (continued)

Statement of changes in equity for year ended 31 December 2020

	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends for the financial year	Total
Initial balance (before restatement)	**307,085**	**21,435**	**2,414**	**(203,917)**	**3,792**	**(2,202)**	**2,017**	**-**	**130,624**
The effect of corrections of errors	-	-	-	-	-	-	-	-	-
The effect of changes in accounting policies	-	-	-	-	-	-	-	-	-
Initial state (current period)	**307,085**	**21,435**	**2,414**	**(203,917)**	**3,792**	**(2,202)**	**2,017**	**-**	**130,624**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-
Execution or expiration of other issued equity instruments	-	-	-	-	-	-	-	-	-
Converting debt to ownership instruments	-	-	-	-	-	-	-	-	-
Equity reduction	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity instruments to liabilities	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity instruments	-	-	-	-	-	-	-	-	-
Transfers between components of proprietary instruments	-	-	-	2,017	-	-	(2,017)	-	-
Increase or decrease in equity instruments as a result of business combinations	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-
Other enhancement or reduction of equity instruments	-	-	-	-	-	-	-		-
Total comprehensive income for the current year	-	-	75	-	-	-	(16,592)	-	**(16,517)**
Final state (current period)	**307,085**	**21,435**	**2,489**	**(201,900)**	**3,792**	**(2,202)**	**(16,592)**	**-**	**114,107**

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB

Reconciliation of balance sheet as at 31 December 2020

in '000 HRK

TOTAL ASSETS - Statutory financial statements		Funds with the CNB	Cash and due from banks	Placements with other banks	Financial assets securities	Loans and advances to customers	Property and equipment	Intangible assets	Other assets	ACCOUNT 296096	TOTAL ASSETS	Ordinal number
ASSETS Specific financial statements 31.12.2020												
1.	Cash, cash receivables from central banks and other demand deposits											
1.1.	Cash		8,777								**8,777**	**1**
1.2.	Cash receivables from central banks	105,107	33,455								**138,562**	**2**
1.3.	Other deposits		79,783								**79,783**	**3**
2	Financial assets held for trading											
2.1.	Derivatives											
2.2.	Equity instruments											
2.3.	Securities											
2.4.	Loans and advances											
3.	Non-trading financial assets that are measured at fair value through profit or loss											
3.1.	Equity instruments				31,313						**31,313**	**4**
3.2.	Securities											
3.3.	Loans and advances											
4.	Financial assets at fair value through profit or loss											
4.2.	Securities											
4.3.	Loans and advances											
5.	Financial assets at fair value through other comprehensive income											
5.1.	Equity instruments											
5.1.	Securities				259,826						**259,826**	**5**
5.2.	Loans and advances											
6.	Financial assets at amortized cost											
6.1.	Securities											
6.2.	Loans and advances	43,551		477		434,179			2,122		**480,329**	**6**
7.	Derivatives - hedge accounting											
8.	Changes in the fair value of hedged items to hedge the portfolio of interest rate risk											
9.	Investments in subsidiaries, joint ventures and associates											
10.	Tangible assets						8,137		735		**8,872**	**7**
11.	Intangible assets							8,480			**8,480**	**8**
12.	Tax assets								8		**8**	**9**
13.	Other assets								6,548		**6,548**	**10**
14.	Non-current assets and disposal groups classified as held for sale								24,083		**24,083**	**11**
TOTAL ASSETS		**148,658**	**122,015**	**477**	**291,139**	**434,179**	**8,137**	**8,480**	**33,496**		**1,046,581**	

Additional reports for Croatian National Bank (continued)

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

Reconciliation of balance sheet as at 31 December 2020

in '000 HRK

	TOTAL LIABILITIES - Statutory financial statements	Client deposits	Borrowings	Hybrid instruments	Provision for liabilities and charges	Other liabilities	Deferred tax liability	Accumulated other comprehensive income	ACCOUNT 296096	TOTAL LIABILITIES Statutory	TOTAL LIABILITIES Specific	Ordinal number
LIABILITIES Specific financial statements 31.12.2020												
1.	Financial liabilities held for trading											
1.1.	Derivatives											
1.2.	Short positions											
1.3.	Deposits											
1.4.	Debt securities											
1.5.	Other financial liabilities											
2.	Financial liabilities at fair value through profit or loss											
2.1.	Deposits	843.619	8.054	47.104							**898.777**	**1**
2.2.	Debt securities											
2.3.	Other financial liabilities					715					**715**	**2**
3.	Financial liabilities measured at amortized cost											
3.1.	Deposits											
3.2.	Debt securities											
3.3.	Other financial liabilities											
4.	Derivatives - hedge accounting											
5.	Changes in the fair value of hedged items to protect the portfolio against interest rate risk											
6.	Provisions				1.059						**1.059**	**3**
7.	Tax liabilities						446	35			**481**	**4**
8.	Capital that is returned on demand											
9.	Other liabilities					31.476					**31.476**	**5**
10.	Liabilities included in the disposal groups classified as held for sale											
	TOTAL LIABILITIES	**843.619**	**8.054**	**47.104**	**1.059**	**32.191**	**446**			**932.474**	**932.508**	

Additional reports for Croatian National Bank (continued)

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

Reconciliation of balance sheet as at 31 December 2020

in '000 HRK

TOTAL CAPITAL AND RESERVES - Statutory financial statements		Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Accumulated losses	TOTAL CAPITAL AND RESERVES Statutory	TOTAL CAPITAL AND RESERVES Specific	Ordinal number
CAPITAL AND RESERVES Specific financial statements 31.12.2020										
1.	Share capital	307.085							**307.085**	**1**
2.	Share premium		21.433						**21.433**	**2**
3.	Issued equity instruments other than equity									
4.	Other proprietary instruments									
5.	Accumulated other comprehensive income					2.454			**2.454**	**3**
6.	Retained earnings						(201.900)		**(201.900)**	**4**
7.	Revaluation reserves									
8.	Other reserves		1		3.792				**3.794**	**5**
9.	Treasury shares			(2.202)					**(2.202)**	**6**
10.	Profit or loss belonging to the owners of the parent company						(16.592)		**(16.592)**	**7**
11.	Dividends for the financial year									
12.	Minority Shares (Non-controlling Shares)									
13.	Accumulated other comprehensive income - capital					35				**3**
TOTAL EQUITY		**307.085**	**21.434**	**(2.202)**	**3.792**	**2.489**	**(218.492)**	**114.107**	**114.072**	

Additional reports for Croatian National Bank (continued)

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

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

ASSETS

1. The amount of cash (HRK 8,778 thousand) from the cash item in the Cashier's Special Financial Statements has been reclassified to item cash and accounts with Banks of the Basic Financial Statements.

2. The amount of deposits with the CNB (HRK 138,562 thousand) from the item cash receivables from central banks of the Special Financial Statements was reclassified to the item cash and deposits with the CNB Basic Financial Statements (HRK 105,107 thousand) and item money and accounts with Banks reports (HRK 33,455 thousand).

3. The amount of other demand deposits (HRK 79,783 thousand) from item other demand deposits of the Special Financial Statements was reclassified to cash and bank accounts with the Basic Financial Statements.

4. The amount of non-tradable financial assets that are necessarily measured at FV through profit or loss (HRK 31,313 thousand) from the item financial instruments of the Special Financial Statements has been reclassified to financial assets - securities of the Basic Financial Statements.

5. The amount of financial assets at fair value through other comprehensive income (HRK 259,826 thousand) from the item debt securities of the Special Financial Statements has been reclassified to the item financial assets - securities in the Basic Financial Statements.

6. The amount of financial assets at amortized cost (HRK 480,329 thousand) from the item loans and advances of the Special Financial Statements was reclassified to cash and deposits with the CNB (HRK 43,551 thousand), to placements with other banks (HRK 477 thousand), loans and advances to customers (HRK 434,179 thousand) and other assets (HRK 2,122 thousand) of the Basic Financial Statements.

7. The amount of tangible assets (HRK 8,871 thousand) from the item tangible assets of the Special Financial Statements was reclassified to property and equipment of the Basic Financial Statements (HRK 8,137 thousand), and to other assets (HRK 735 thousand).

8. The amount of intangible assets (HRK 8,480 thousand) from the item intangible assets of the Special Financial Statements is reclassified to the item intangible assets of the Basic Financial Statements.

9. Items 09,10,11 - tax assets, other assets and fixed assets classified as held for sale (HRK 30,639 thousand) Special Financial Statements are reclassified to other assets in the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

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

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

LIABILITIES

1. The amount of the financial liability at fair value through profit or loss (HRK 898,777 thousand) from the item deposits of the Special Financial Statements was reclassified to received loans (HRK 8,054 thousand), to customer deposits (HRK 843,619) and to the hybrid instrument item (47,104 thousand) of the Basic Financial Statements.

2. The amount (HRK 715 thousand) under other financial liabilities of the Special Financial Statements has been reclassified to other liabilities of the Basic Financial Statements.

3. The amount (HRK 1,060 thousand) under the provision of the Special Financial Statements has been reclassified to the provision for liabilities and expenses of the Basic Financial Statements.

4. The amount (HRK 481 thousand) relating to deferred tax liability has been reclassified from the item of tax liability of the Special Financial Statements to the item deferred tax liability of the Basic Financial Statements.

5. The amount of other liabilities (HRK 31,476 thousand) was reclassified from the item other liabilities of the Special Financial Statements to the item other liabilities of the Basic Financial Statements.

EQUITY

1. The share capital (HRK 307,085 thousand) from the item share capital of the Special Financial Statements is reclassified to the item share capital of the Basic Financial Statements.

2. Share premium (HRK 21,435 thousand) of the Special Financial Statements is reclassified to premium on the issued shares of the Basic Financial Statements.

3. The item of accumulated other comprehensive income (HRK 2,454 thousand) of the Special Financial Statements has been reclassified to the fair value reserve item of the Basic Financial Statements.

4. The amount of retained earnings-loss (HRK -201,900 thousand) from the item retained earnings of the Special Financial Statements is reclassified to the item accumulated losses of the Basic Financial Statements.

5. The amount of reserves (HRK 3,792 thousand) from the item other reserves of the Special Financial Statements has been reclassified to other reserves in the Basic Financial Statements.

6. Treasury stock item (HRK -2,202 thousand) of the Special Financial Statements has been reclassified to Treasury stock item of the Basic Financial Statements.

7. The amount of profit or loss (HRK -16,592 thousand) from the profit or loss item belonging to the owners of the parent company is reclassified to the item accumulated losses-gains of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

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

Reconciliation of the Income statement as at 31 December 2020

in '000 HRK

	PROFIT AND LOSS ACCOUNT- Statutory financial statements I-XII 2020	Interest income and similar income	Interest expense and similar expense	Fee and commission income	Fee and commission expense	Realized gains net of losses on securities	Gains less losses on foreign exchange gains	Other income	Employees costs	Depreciation and impairment of goodwill	Other operating expenses	Impairment costs and provisions	Income tax	PROFIT (LOSS)		Ordinal number
1.	Interest income	25,024													**25,024**	**1**
2.	Interest expense		(8,345)		12										**(8,333)**	**2**
3.	Return on equity that is returned on demand															
4.	Dividend income															
5.	Fee and commission income			5,309											**5,309**	**3**
6.	Fee and commission expense				(789)										**(789)**	**4**
7.	Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net					(84)									**(84)**	**5**
8.	Gains or losses on financial assets and financial liabilities held for trading, net						2,491								**2,491**	**6**
9.	Gains or losses on financial assets not traded measured at fair value through profit or loss, net					152									**152**	**5**
10.	Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net															
11.	Gains or losses from hedge accounting, net															
12.	Foreign exchange differences (gains or losses), net	(48)	34				(91)					42			**(62)**	**7**
13.	Gains or losses on discontinuing nonfinancial assets, net							219							**219**	**8**
14.	Other operating income							2,515							**2,515**	**9**
15.	Other operating expenses										(822)				**(822)**	**10**
16.	**TOTAL OPERATING INCOME, NET**															
17.	Administrative expenses								(15,809)		(8,419)				**(24,228)**	**11**
18.	Contribution in cash to resolution committees										(1,861)				**(1,861)**	**12**
19.	Depreciation									(7,207)	(109)				**(7,316)**	**13**
20.	Gains or losses due to changes, net															
21.	Provisions or cancellation of provisions											(324)			**(324)**	**14**
22.	Impairment or impairment of an impairment of a financial asset that is not measured at fair value through profit or loss			(59)								(2,580)			**(2,639)**	**15**
23.	Impairment or impairment of investments in subsidiaries, joint ventures and associates															
24.	Impairment of or impairment of impairment of non-financial assets											(5,559)			**(5,559)**	**16**
25.	Negative goodwill recognized in profit or loss															
26.	Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method															
27.	Profit or Loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business															
28.	**PROFIT OR LOSS BEFORE TAX FROM OPERATIONS TO BE CONTINUED**															
29.	Tax expense or income related to operating profit or loss that will continue												(283)		**(283)**	**17**
30.	**PROFIT OR LOSS AFTER TAX FROM OPERATIONS TO BE CONTINUED**															
31.	**Profit or loss after taxation from operations that will not continue**										(2)				**(2)**	**18**
31.1.	Profit or loss before operating tax that will not continue															
31.2.	Tax expense or income related to business that will not continue															
32.	**PROFIT OR LOSS FOR THE YEAR**	**24,976**	**(8,311)**	**5,250**	**(777)**	**68**	**2,400**	**2,734**	**(15,809)**	**(7,207)**	**(11,212)**	**(8,421)**	**(283)**	**(16,592)**	**(16,592)**	
33.	It belongs to minority interest (non-controlling shares)															
34.	It belongs to the owners of the parent company															

Additional reports for Croatian National Bank (continued)

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

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements (continued)

1. The amount of interest income (HRK 25,024 thousand) from the item interest income, and the item foreign exchange difference (profit or loss) net (HRK -48 thousand) is reclassified to interest income (HRK 24,976 thousand) of the Basic Financial Statements.

2. Interest expense (HRK -8,333 thousand) from the item interest expense and the item foreign exchange difference (profit or loss) net (HRK 34 thousand) has been reclassified to interest expense (HRK -8,311 thousand) of the Basic Financial Statements.

3. The amount of fee income (HRK 5,309 thousand) from the item fee and commission income, and item impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK -59 thousand) is reclassified in item fee income (HRK 5,250 thousand) of the Basic Financial Statements.

4. Fee and commission expense (HRK -789 thousand) and interest expenses (HRK 12 thousand) in the Special Financial Statements has been reclassified to fee and commission expense (HRK -777 thousands) in the Basic Financial Statements.

5. Gains or losses on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss, net (HRK -84 thousand), and gains or losses on non-trading financial assets measured at fair value through profit or loss, net (HRK 152 thousand) of the Special Financial Statements, has been reclassified to realized gains less losses on securities (HRK 68 thousand) of the Basic Financial Statements.

6. Gains or losses on financial assets and financial liabilities held for trading, net (HRK 2,492 thousand), and exchange rate differences (profit or loss) net (HRK -91 thousand) of the Special Financial Statements have been reclassified to Foreign exchange gains and losses difference (HRK 2,401 thousand) of the Basic Financial Statements.

7. Foreign exchange differences (profit or loss) net (HRK -62 thousand) Special Financial Statements, have been reclassified to Interest income (HRK -48 thousand), interest expense (HRK 22 thousand), to profit less exchange rate losses (HRK -91 thousand) and impairment losses and provisions (HRK 42 thousand) and in expenses from fees and commissions (HRK 12 thousand) of the Basic Financial Statements.

8. Gains or losses on derecognition of non-financial assets, net (HRK 219 thousand) Special Financial Statements, have been reclassified to other income of the Basic financial statements.

9. Other operating income (HRK 2,515 thousand) Special Financial Statements has been reclassified to other revenues of the Basic Financial Statements.

10. Other operating expenses (HRK -822 thousand) Special Financial Statements has been reclassified to other operating expenses of the Basic Financial Statements.

11. Administrative expenses (HRK -24,228 thousand) Special Financial Statements has been reclassified to employee expenses (HRK -15,809 thousand) and to other operating expenses (HRK -8,419 thousand) of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

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

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements

12. Cash contributions to the resolution committee (HRK -1,861 thousand) Special Financial Statements have been reclassified to other operating expenses of the Basic Financial Statements.
13. Depreciation (HRK -7,316 thousand) Special Financial Statements has been reclassified to Depreciation and impairment of goodwill (HRK -7,207 thousand) and to other operating expenses (HRK -109 thousand) of the Basic Financial Statements.
14. Provisions or cancellations of provision (-324 thousand HRK) Special Financial Statements has been reclassified to Impairment costs and provisions of the Basic Financial Statements.
15. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK -2,639 thousand) Special Financial Statements has been reclassified to Impairment costs and provisions (HRK -2,580 thousand) and to Fee income and commission (HRK -59 thousand) of the Basic Financial Statements.
16. Impairment or reversal of impairment of non-financial assets (HRK 5,559 thousand) of the Special Financial Statements has been reclassified to impairment and provisions.
17. Tax expense or income related to continuing profit or loss (HRK 283 thousand) has been reclassified to Income Tax in the Basic Financial Statements.
18. Gains or losses on non-current assets and disposal groups classified as held for sale that are not classified as non-continuing operations (HRK -2 thousand) Special Financial Statements are reclassified to other income in the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

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

Reconciliation of comprehensive income statement as at 31 December 2020

in '000 HRK

REPORT ON OTHER COMPREHENSIVE INCOME		Profit (loss) for the year	Unrealized gains on securities assets, net of realization	Deferred tax on financial assets of securities	Total comprehensive profits	Ordinal number
1.	**Profit or loss**	(16.592)			**(16.592)**	
2.	**Other comprehensive income**					
2.1.	**Items that will not be reclassified to profit or loss**					
2.1.1.	Tangible assets					
2.1.2.	Intangible assets					
2.1.3.	Actuarial gains or losses on pension plans under the sponsorship of the employer					
2.1.4.	Non-current assets and disposal groups intended for sale					
2.1.5.	Share of other recognized income and expense of entities that are accounted for by the equity method					
2.1.6.	Changes in fair value of equity instruments measured at fair value through other comprehensive income					
2.1.7.	Gains or losses on hedge accounting of equity instruments measured at fair value through other comprehensive income, net					
2.1.8.	Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)					
2.1.9.	Changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)					
2.1.10.	Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk					
2.1.11.	Income tax relating to items that will not be reclassified					
2.2.	**Items that can be reclassified to profit or loss**					
2.2.1.	Hedges of a Net Investment in a Foreign Operation (effective share)					
2.2.2.	Conversion of foreign currencies					
2.2.3.	Protect Cash Flow (Effective Share)					
2.2.4.	Hedging instruments (elements which are not specified)					
2.2.5.	Debt instruments at fair value through other comprehensive income		164		**164**	**1**
2.2.6.	Non-current assets and disposal groups intended for sale					
2.2.7.	Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates					
2.2.8.	Income taxes relating to items that may be reclassified profit and loss			(89)	**(89)**	**2**
3.	**Total comprehensive income**	(16.592)	164	(89)	**(16.517)**	
4.	It belongs to minority interest (non-controlling interest)					
5.	It belongs to the owners of the parent company			(16.517)		

1. Amount of (HRK 164 thousand) from the item debt instruments at fair value through other comprehensive income of the Special Financial Statements is reclassified to the item unrealized gains on securities assets, net of the realization of the Basic Financial Statements.

2. Amount (HRK -124 thousand) from the item Profit tax relating to items that can be reclassified to profit or loss of the Special Financial Statements, is reclassified to the item deferred tax on financial assets of the securities of the Basic Financial Statements. The difference of HRK 35 thousand in the Special Financial Statements was calculated deferred tax liability on profit per VP without loss adjustment, which affected the increase in liabilities and the decrease in other comprehensive income.

Reconciliation of the Statement of cash flows in statutory financial statements with the supplementary schedules for CNB

The differences in the cash flow statement published in the annual report and that defined by the CNB's prescribed structure and content are caused by the different methodology of these two reports. Cash flow elaboration on items of operational, investment and financial activities is also different due to different starting points in cash flow presentation.

Announcements pursuant to Article 164 of the Credit Institutions Act

1) J&T banka d.d. is registered for the following activities:

- Accepting deposits or other repayable funds from people and approving credits from those funds, for own account,
- accepting deposits and other repayable funds,
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring),
- financial lease,
- issuing guarantees and other warrants,
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2020, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank mainly carries out its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

2) The total revenue of the Bank for 2020 amounted to HRK 36,104 thousand.
3) The Bank employs 67 full-time employees.
4) Net loss in 2020 amounted to HRK 16,592 thousand and the Bank did not have any obligation to pay tax on profit.
5) The bank have not received public subsidies during 2020.