

CROATIAN NATIONAL BANK

FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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Independent Auditors' Report to the Council of the Croatian National Bank

Opinion

We have audited the financial statements of the Croatian National Bank, which comprise the statement of financial position as at 31 December 2020, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Croatian National Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

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 Croatian National 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.

Responsibilities of the Council of the Croatian National Bank for the Financial Statements

The Council of the Croatian National Bank is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the EU, and for such internal control as the Council of the Croatian National Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council of the Croatian National Bank is responsible for assessing the Croatian National 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 in accordance with the relevant legislation.

The Council of the Croatian National Bank is responsible for overseeing the Croatian National Bank's financial reporting process.



Independent Auditors' Report to the Council of the Croatian National Bank (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 scepticism throughout the audit. We also:

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

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

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

KPMG Croatia d.o.o. za reviziju

Hrvatski ovlaštteni revizori
Eurotower, Ivana Lučića 2a
10000 Zagreb
Hrvatska

KPMG Baltics AS

Vesetas iela 7
Riga, LV 1013
Latvia

For and on behalf of KPMG Croatia d.o.o.:

For and on behalf of KPMG Baltics AS

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

Goran Horvat
*President of the Management Board,
Croatian certified auditor*

Armine Movsisjana
Managing Partner

Zagreb, 15 March 2021

Riga, 15 March 2021

Croatian National Bank
Financial Statements for the year ended 31 December 2020

INCOME STATEMENT

<i>(All amounts are expressed in thousands of kuna)</i>	Notes	2020	2019
Interest income calculated using the effective interest method	3	632,122	659,380
Other interest income	3	86,240	169,471
Interest expenses	4	<u>(126,660)</u>	<u>(324,986)</u>
Net interest income		591,702	503,865
Fee and commission income	5a	55,889	53,762
Fee and commission expenses	5b	<u>(21,548)</u>	<u>(22,834)</u>
Net fee and commission income	5	34,341	30,928
Dividend income		—	5,419
Net investment result – equity method		10,069	2,119
Net result from financial assets at fair value through profit or loss	6	(51,397)	(116,317)
Net result from debt securities at fair value through other comprehensive income	7	113,699	74,821
Net exchange differences	8	(1,564)	833,626
Other income	9	<u>6,420</u>	<u>11,038</u>
Operating income		703,270	1,345,499
Staff costs	10.1	(203,055)	(186,407)
Materials, services and administrative expenses	10	(104,733)	(104,858)
Costs of production of kuna banknotes and coins	10	(69,808)	(68,002)
Depreciation and amortisation costs	10	<u>(41,880)</u>	<u>(35,984)</u>
Operating expenses	10	(419,476)	(395,251)
Impairment losses on financial instruments	11	(14,894)	(9,519)
Impairment of property	23	—	(590)
Increase in provisions	12	<u>(2,935)</u>	<u>(13,001)</u>
Profit	35	265,965	927,138
– Allocated to general reserves	35	(53,193)	(809,729)
– Allocated to the State Budget	35	<u>(212,772)</u>	<u>(117,409)</u>

The notes on pages 9 to 95 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

<i>(All amounts are expressed in thousands of kuna)</i>	Notes	2020	2019
Profit		265,965	927,138
Other comprehensive income		575,630	952,541
<i>Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods</i>		—	23,308
Change in revaluation reserves for fixed assets	23	—	23,308
<i>Other comprehensive income items that have been or will be reclassified to profit or loss in subsequent periods</i>		575,630	929,233
Debt securities at fair value through other comprehensive income:		575,630	929,233
Gains from remeasurement		691,148	1,003,403
Gains from sale transferred to profit or loss	7	(113,699)	(74,821)
Net changes in loss allowances for expected credit losses	37.1.4	(1,819)	651
Total comprehensive income		841,595	1,879,679

Croatian National Bank
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STATEMENT OF FINANCIAL POSITION

<i>(All amounts are expressed in thousands of kuna)</i>	Notes	31/12/2020	31/12/2019
Assets			
Cash and current accounts with other banks	13	33,766,205	7,351,114
Deposits with other banks	14	12,072,191	15,321,900
Financial assets at fair value through profit or loss	15	26,600,419	39,405,122
Loans	16	4,532,045	1,914,408
Reverse repo agreements	17	4,729,644	11,467,170
Debt securities at amortised cost	18	38,243,282	14,365,394
Balances with the International Monetary Fund	19	9,064,146	9,428,524
Debt securities at fair value through other comprehensive income	20	44,646,838	47,439,374
Investments accounted for using the equity method	21	51,076	25,736
Other assets	22	6,347,601	5,066,565
Property, plant, equipment and intangible assets	23	610,168	620,824
TOTAL ASSETS		180,663,615	152,406,131
Liabilities			
Banknotes and coins in circulation	24	41,792,678	38,734,616
Due to banks and other financial institutions	25	90,723,476	74,624,796
Repo agreements	26	3,756,698	5,998,829
Due to the State and State institutions	27	17,722,069	6,712,594
Due to the International Monetary Fund	28	9,049,025	9,414,492
Other liabilities	29	694,437	627,330
Provisions for risks and charges	30	62,702	59,767
Total liabilities		163,801,085	136,172,424
Equity			
Initial capital	31	2,500,000	2,500,000
Reserves	31	14,362,530	13,733,707
Total equity		16,862,530	16,233,707
TOTAL EQUITY AND LIABILITIES		180,663,615	152,406,131

The financial statements set out on pages 4 to 95 were approved on 15 March 2021:

Director of the Accounting Department:

Mario Varović



Governor:

Boris Vujčić



The notes on pages 9 to 95 form an integral part of these financial statements.

Croatian National Bank
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STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in thousands of kuna)

	Initial capital	General reserves	Fair value reserve for debt securities at fair value through other comprehensive income	Revaluation reserves on property	Total reserves	Profit or loss	Total equity
As at 1 January 2019	2,500,000	10,820,897	821,893	328,647	11,971,437	–	14,471,437
Profit	–	–	–	–	–	927,138	927,138
Other comprehensive income	–	–	929,233	23,308	952,541	–	952,541
Total comprehensive income	–	–	929,233	23,308	952,541	927,138	1,879,679
Depreciation of revalued property	–	5,234	–	(5,234)	–	–	–
Profit allocated to general reserves (Note 35)	–	809,729	–	–	809,729	(809,729)	–
Profit allocated to the State Budget (Note 35)	–	–	–	–	–	(117,409)	(117,409)
As at 31 December 2019	2,500,000	11,635,860	1,751,126	346,721	13,733,707	–	16,233,707
As at 1 January 2020	2,500,000	11,635,860	1,751,126	346,721	13,733,707	–	16,233,707
Profit	–	–	–	–	–	265,965	265,965
Other comprehensive income	–	–	575,630	–	575,630	–	575,630
Total comprehensive income	–	–	575,630	–	575,630	265,965	841,595
Depreciation of revalued property	–	4,707	–	(4,707)	–	–	–
Profit allocated to general reserves (Note 35)	–	53,193	–	–	53,193	(53,193)	–
Profit allocated to the State Budget (Note 35)	–	–	–	–	–	(212,772)	(212,772)
As at 31 December 2020	2,500,000	11,693,760	2,326,756	342,014	14,362,530	–	16,862,530

The notes on pages 9 to 95 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(All amounts are expressed in thousands of kuna)

	2020	2019
Cash flows from operating activities		
Interest received	1,130,809	959,561
Interest paid	(144,760)	(307,182)
Fees and commissions received	55,682	53,029
Fees and commissions paid	(18,527)	(12,710)
Dividends received and proceeds from share in profit	—	5,419
Other receipts	120,588	91,879
Outflows for staff costs	(201,247)	(184,324)
Outflows for production of kuna banknotes and coins	(81,776)	(117,114)
Payment of other material and administrative expenses and services	(144,595)	(140,251)
Inflows in deposits and reverse repo agreements with other banks	10,247,167	6,220,402
Inflows/(outflows) in loans	(2,635,994)	134,507
Sale of held-for-trading securities	12,673,539	502,715
Inflows in assets under management with international financial institutions	21,719	39,453
Purchase of foreign currency securities at amortised cost	(3,760,594)	(13,677,771)
Purchase of Republic of Croatia bonds at amortised cost	(20,105,394)	—
Sale/(purchase) of securities measured at fair value through other comprehensive income	2,766,590	(2,284,580)
Outflows in other assets	(14,427)	(149,180)
Outflows in amounts due to the International Monetary Fund	(44)	(50)
Issuance of currency in circulation	3,058,062	3,688,456
Inflows/(outflows) in repo agreements and other amounts due to banks and other financial institutions	12,398,736	(942,434)
Inflows in amounts due to the State and State institutions	10,400,916	3,710,334
Inflows in other liabilities	620,860	249,382
Net cash from operating activities	26,387,310	(2,160,459)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(38,855)	(30,061)
Acquisition of shareholdings (purchase of shareholding in CMI)	(15,271)	—
(Additional payment)/Repayment of part of paid-up capital to/from the ECB	(2,783)	1,053
Net cash from investing activities	(56,909)	(29,008)
Cash flows from financing activities		
Payments of allocated profits to the State Budget	(117,409)	—
Outflows in lease liabilities	(2,428)	(992)
Net cash from financing activities	(119,837)	(992)
Effect of changes in exchange rates – positive exchange differences – on cash and cash equivalents	97,367	67,280
Net increase/(decrease) in cash and cash equivalents	26,307,931	(2,123,179)
Cash and cash equivalents at beginning of period	10,155,138	12,278,317
Cash and cash equivalents at end of period (Note 34)	36,463,069	10,155,138

The notes on pages 9 to 95 form an integral part of these financial statements.

NOTE 1 – GENERAL INFORMATION AND ACCOUNTING STANDARDS

1.1 General information

The Croatian National Bank is the central bank of the Republic of Croatia with headquarters in Zagreb, Trg hrvatskih velikana 3. Its status has been defined by the Act on the Croatian National Bank (Official Gazette 75/2008, 54/2013 and 47/2020). The Croatian National Bank forms part of the European System of Central Banks.

The Act on Amendments to the Act on the Croatian National Bank, published in the Official Gazette No. 47 of 17 April 2020, amends the provisions of the Act on the Croatian National Bank, enabling the establishment of close cooperation of the European Central Bank with the Croatian National Bank and the Republic of Croatia's joining the Single Resolution Mechanism and further aligning the provisions entering into force on the date of introduction of the euro as the official currency of the Republic of Croatia. The amendments introduced to the area of monetary policy provide for the use of an instrument not used so far due to restrictions in the domestic legislation. This refers to negative interest rates, which have in the past several years been used by central banks as an important instrument of monetary policy and liquidity management as well as a stimulus for money markets. In the part relating to the preparation of the financial statements of the Croatian National Bank this Act prescribes the mandatory application of Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) as of 1 January 2021.

The Republic of Croatia entered the European Exchange Rate Mechanism (ERM II) on 10 July 2020, which is a key step in the process of introducing the euro in the Republic of Croatia. At the same time, the European Central Bank adopted a decision to establish close cooperation with the Croatian National Bank, which made the CNB a part of the Single Supervisory Mechanism (SSM). From the date of entry into force of the decision of the European Central Bank on close cooperation, the Republic of Croatia will also take part in the Single Resolution Mechanism (SRM).

The Croatian National Bank is owned by the Republic of Croatia, which guarantees for all its obligations. The Croatian National Bank is autonomous and independent in fulfilling its objective and carrying out its tasks. The primary objective of the Croatian National Bank is maintaining price stability.

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

National Bank.

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

- determining and implementing monetary and foreign exchange policies;
- maintaining and managing international reserves of the Republic of Croatia;
- issuing of banknotes and coins;
- issuing and withdrawing authorisations and approvals as well as adopting other decisions in accordance with laws regulating the operations of credit institutions, credit unions, payment service providers, electronic money issuers and payment systems as well as payment operations, electronic money issuance, foreign exchange operations and the operations of authorised foreign exchange offices;
- performing supervision and oversight in accordance with laws regulating the operations of credit institutions, credit unions, payment service providers, electronic money issuers and payment systems as well as payment operations and electronic money issuance;
- exercising resolution powers in accordance with regulations on the resolution of credit institutions;
- maintaining accounts of credit institutions and performing payment transactions on those accounts, issuing loans to and receiving deposit funds from credit institutions;
- the regulation and improvement of payment operations and ensuring their smooth operation;
- performing tasks on behalf of the Republic of Croatia as defined by law;
- promulgating subordinate regulations from its area of competence;
- implementing macroprudential policy to preserve the stability of the whole financial system;
- performing other tasks specified by law.

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

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

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

Members of the Council of the Croatian National Bank:

- Prof. D. Sc. Boris Vujčić, Governor
- D. Sc. Sandra Švaljek, Deputy Governor
- D. Sc. Michael Faulend, Vicegovernor
- Bojan Fras, Vicegovernor
- M. Sc. Slavko Tešija, Vicegovernor
- D. Sc. Roman Šubić, Vicegovernor
- M. Sc. Martina Drvar, Vicegovernor
- M. Sc. Ivana Jakir Bajo, Vicegovernor (since 1 July 2020).

The financial statements of the Croatian National Bank do not comprise the financial statements of the subsidiary Croatian Monetary Institute because they are not material for the financial statements of the Croatian National Bank.

1.2 Accounting standards

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

1.2.1 Application of new and revised standards

The financial statements for the current reporting period have been prepared in accordance with the same accounting policies applied to the financial statements for the year ended 31 December 2019, applying the standards mandatory in the EU as of 1 January 2020.

Croatian National Bank
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In 2019 and 2020 amendments to the existing standards with mandatory application in the EU for annual periods commencing from 1 January 2020 were published, as presented in the following table.

<i>Official Journal of the EU</i>	<i>Standard</i>
OJ L 316, 6.12.2019	Amendments to References to the Conceptual Framework in IFRS Standards (several standards and interpretations)
OJ L 318, 10.12.2019	Definition of the term "material": IAS 1 – Presentation of Financial Statements (amendments) IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (amendments)
OJ L 12, 16.1.2020	Reform of reference interest rates IAS 39 – Financial Instruments: Recognition and Measurement (amendments) IFRS 7 – Financial Instruments: Disclosures (amendments) IFRS 9 – Financial Instruments (amendments)
OJ L 127, 22.4.2020	IFRS 3 – Business Combinations (amendments)
OJ L 331, 12.10.2020	Covid-19-Related Rent Concessions IFRS 16 – Leases (amendments)

These standards and interpretation were applied in the compilation of the financial statements for 2020 and did not have a significant impact on the financial statements of the Croatian National Bank. The reform of reference interest rates did not have any impact on the financial statements of the Croatian National Bank in the reporting period.

1.2.2 Standards and interpretations endorsed in the EU which were not applied in the preparation of the financial statements for 2020

In 2020, amendments to the existing standards with mandatory application in the EU for annual periods commencing from 1 January 2021 were published, as presented in the following table.

<i>Official Journal of the EU</i>	<i>Standard</i>
OJ L 425, 16.12.2020	Extension of the temporary exemption from applying IFRS 9: IFRS 4 – Leases (amendments)

The application of these amendments to IFRS standards would not have a significant impact on the financial statements of the Croatian National Bank.

The Croatian National Bank did not early adopt new standards, amendments to standards and their interpretations, adopted by the EU, whose adoption in 2020 is optional (non-binding), given that the commencement of the financial year is set as 1 January.

1.2.3 Standards and interpretations which are not endorsed in the EU

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) issued additional standards and interpretations, which have not yet been endorsed in the EU. It is estimated that their application would not have a significant impact on the preparation of the financial statements of the Croatian National Bank, had the Croatian National Bank continued to prepare its financial statements in accordance with the International Financial Reporting Standards as adopted in the European Union.

1.3 Basis of preparation

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

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

These financial statements are prepared using going concern assumption.

1.4 Use of judgements and estimates

In preparing the financial statements for 2020, the management has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. The estimates are based on the management's best estimate of current events and operations, and actual results may differ from these estimates,

The costs of printing banknotes are initially deferred and recognised in the Income Statement over a period of ten years, and the cost of minting coins over a period of twelve years. Deferrals are based on the assessment of the useful life of banknotes and coins, which includes the storage of banknotes and coins in the vault (the logistic cash reserves for regular supply of cash centres and the strategic cash reserves, as well as the storage of banknotes and coins unfit for circulation until they are destroyed) and the average time of their circulation.

The significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty differ from those applied in the preparation of the financial statements for 2019 as the impact of the COVID-19 pandemic on the financial statements of the Croatian National Bank was taken into account in the preparation of these statements.

The Croatian National Bank manages its credit risk exposure by investing its international reserve funds into high-quality instruments with minimum risk, such as government bonds, government guaranteed bonds, bank bonds with government guarantees and guaranteed bonds, into instruments of international financial institutions with high credit rating and into both collateralised and non-collateralised deposits. Collateralised deposits represent deposits secured by government bonds in the amount equal to or in excess of the value of the deposit. Uncollateralised deposits are invested only with central banks and international financial institutions. When determining whether a significant increase in credit risk has occurred after initial recognition also taken into account were the impact of the COVID-19 pandemic on the calculation of expected credit losses and reasonable and supportable information that was available without undue costs or effort and may influence the credit risk of a financial instrument. Financial instruments with an investment credit rating are considered low credit risk financial instruments and since the international reserve funds are invested with financial institutions and countries with an investment credit rating the COVID-19 pandemic did not have a significant impact on the increase in credit risk after initial recognition.

1.4.1 Fair value and fair value hierarchy

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

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

replacement cost). The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount.

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

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

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

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

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

1.4.2 Losses on impairment of financial assets

Impairment losses on financial assets are described under accounting policy for Financial assets.

1.4.3 Estimation uncertainty relating to litigations and claims

The Croatian National Bank provided HRK 36,535 thousands in respect of liabilities for court cases (2019: HRK 36,545 thousands). The management estimates these provisions as sufficient. Detailed disclosures regarding provisions for court cases are stated in Note 30.

1.5 Measures to mitigate the economic consequences of the COVID-19 pandemic

Due to the global expansion of the COVID-19 pandemic, central banks worldwide have taken various measures to provide economic support aimed at tackling the economic consequences of the pandemic outbreak on individuals, households and businesses. In response to the crisis, central banks used a number of measures at

their disposal: reduction of interest rates, granting of loans, asset purchase programmes and other measures to ensure the liquidity and stability of the financial system.

The Croatian National Bank has taken a set of measures aimed at mitigating the economic consequences caused by the coronavirus pandemic:

- It has implemented a package of monetary policy measures to maintain the stability of the exchange rate and financial stability: government bond purchases aimed at maintaining stability in the government securities market, foreign exchange interventions aimed at maintaining the exchange rate stability and ensuring foreign exchange liquidity and structural and regular operations aimed at increasing banking system liquidity.
- It has adjusted its approach to the supervision of credit institutions in order for banks to facilitate the ensuring of liquidity and thus support the maintenance of economic activity and the safeguarding of jobs.
- In the area of payment operations and transactions with bank clients, it has issued a set of recommendations aimed at facilitating transactions for households during this crisis period.
- It implements measures, which apply to its key tasks, employees, business processes and business premises, that ensure the smooth and regular performance of all the key functions of the central bank as well as of credit institutions supervised by the CNB. In order to protect employees and visitors, i.e. to prevent the further spread of infection, it has also taken the following measures: keeping a social distance, wearing protective masks, avoiding the gathering of a large number of people (especially indoors), washing/disinfecting hands, measuring temperature and disinfecting footwear at the disinfection barriers which are placed in all locations.

1.6. Changes in presentation of the financial statements 2019

In order to improve the presentation of the financial statements certain positions in the Income Statement and the Statement of Financial Position are changed in 2020 compared to 2019.

Operating expenses in the amount of HRK 395,251 thousands which were in 2019 reported as one line item in the Income Statement are in 2020 divided in four line items: Staff costs in the amount of HRK 186,407 thousands, Materials, services and administrative expenses in the amount of HRK 104,858 thousands, Costs of production of kuna banknotes and coins in the amount of HRK 68,002 thousands and Depreciation and amortisation in the amount of HRK 35,984 thousands.

Impairment losses in the amount of HRK 10,109 thousands were presented as one item in the Income Statement in 2019, while in 2020 they are divided in Impairment losses on financial instruments in the amount of HRK 9,519 thousands and Impairment of property in the amount of HRK 590 thousands.

Equity securities at fair value through other comprehensive income – irrevocable election – which were in 2019 presented as a separate item in the Statement of Financial Position in the amount of HRK 59,165 thousands are reclassified in accordance with reporting practice of central banks of the European System of Central Banks to Other assets.

Provisions for risks and charges in the amount of HRK 59,767 thousands are reported as a separate item in the Statement of Financial Position and not as a part of Other liabilities as reported in 2019.

The aforementioned reclassifications are presentational in nature and have no effect on net result for the year or equity at year end.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Interest income and expense

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

Interest income on financial instruments at amortised cost and financial assets at fair value through other comprehensive income are recognised in the Income Statement using the effective interest method.

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

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

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

interest rate and presented in line item Other interest income in the Income Statement.

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

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

2.2 Fee and commission income and expense

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

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

2.3 Dividend income

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

2.4 Foreign exchange gains and losses

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

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

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

The exchange rates of major foreign currencies at 31 December 2020 were as follows:

1 USD = 6.139039 HRK (2019: 6.649911 HRK)

1 EUR = 7.536898 HRK (2019: 7.442580 HRK)

1 XDR = 8.869642 HRK (2019: 9.227696 HRK)

2.5 Provisions

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

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

2.6 Financial instruments

At recognition, measurement and classification of financial assets, the Croatian National Bank applies the provisions of IFRS 9 – Financial Instruments.

2.6.1 Recognition and derecognition of financial assets

The Croatian National Bank recognises a financial asset in its Statement of Financial Position only when it becomes party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised and derecognised using settlement date accounting. The settlement date is the date that an asset is delivered to or by the Croatian National Bank.

Deposits and loans are initially recognised on the date on which they are originated.

The Croatian National Bank derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire;
- it transfers the financial asset in a way that it transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients;

- it transfers substantially all the risks and rewards of ownership of the financial asset; and
- it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and it has not retained control of the financial asset.

2.6.2 Initial and subsequent measurement of financial assets

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

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

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

The cost of the sold securities is determined using the weighted average cost method.

Measurement at amortised cost

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

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

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

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

2.6.3 Classification of financial assets

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

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

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

- the business model to hold the financial assets in order to collect contractual cash flows;
- the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- other business models.

The Croatian National Bank manages the financial assets, held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, to realise cash flows by collecting contractual payments over the life of the instrument. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. In particular, such sales may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows if those sales are infrequent or insignificant in value both individually and in aggregate.

The Croatian National Bank holds financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.

The Croatian National Bank manages the financial assets held within other business models whose objective is to realise cash flows through the sale of the assets. The decision is made based on the assets' fair values. Even if the Croatian National Bank collects contractual cash flows while it holds the financial assets, the objective of such a business model is not achieved by both collecting contractual cash flows and selling financial assets.

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

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

- if they contain a fixed coupon;
- if the principal value is paid at the bond maturity date;
- if they have no linked options, such as conversion, call or put option.

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

2.6.3.1 Financial assets at amortised cost

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

2.6.3.2 Financial assets at fair value through other comprehensive income

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

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

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

If debt securities are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

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

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

2.6.3.3 Financial assets at fair value through profit or loss

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

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

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

2.6.3.4 Investment in equity instruments

For equity instruments not held for trading (all equity instruments of the Croatian National Bank), subsequent changes in fair value are presented in other comprehensive income.

A change in the fair value of investment in equity instruments is recognised in other comprehensive income. The amounts recognised in other comprehensive income are not subsequently transferred to profit and loss. Cumulative gain or loss may be transferred within equity.

Such an investment is not a monetary item. Accordingly, the gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

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

Investments in equity securities are designated as financial assets at fair value through other comprehensive income and include investments in BIS shares, SWIFT shares and ECB paid-up capital. These investments are measured at cost because they do not have quoted market prices on an active market and their fair value cannot be reliably measured.

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

2.6.4 Impairment of financial assets

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

Loss allowances for financial assets measured at fair value through other comprehensive income are recognised through other comprehensive income and are not reduced from carrying amount of financial assets in the Statement of Financial Position.

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

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

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

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

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

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

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

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

Stage 3 includes credit-impaired financial assets. For financial instruments in this stage expected credit losses are calculated for a lifetime of the instrument, with interest calculated based on the amortised cost of the financial asset.

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

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

- a downgrade of the long-term credit rating of the financial instrument below the Fitch rating agency's investment grade; and if there is no rating, then the ratings of Moody's and Standard&Poor's are used

as a secondary source; and/or

- contractual payments are more than 30 days past due.

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

- a downgrade of the long-term credit rating of the financial instrument below the Fitch rating agency's investment grade; if there is no rating, then the ratings of Moody's and Standard&Poor's as well as contractual payments that are more than 90 days past due for instruments rated by a rating agency are used as a secondary source;
- contractual payments are more than 90 days past due for instruments rated using an internal rating.

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

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

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

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

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

If the credit risk of a financial instrument, for which loss allowances were calculated at an amount equal to lifetime expected credit losses of the instrument in the previous reporting period, decreases to the extent that the financial instrument is transferred to stage 1, loss allowances are calculated at an amount equal to the amount of expected credit losses in a twelve month period.

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

Write-off

The gross carrying amount of a financial asset is directly reduced when there are no reasonable expectations (if it is assessed that a borrower has no asset or income source that could generate cash flows sufficient for the repayment of the amounts being written off) of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

2.6.5 Financial liabilities

The Croatian National Bank recognises a financial liability in its Statement of Financial Position only when it becomes party to the contractual provisions of the instrument. A financial liability is initially recognised on the commitment date.

A financial liability is removed from the Statement of Financial Position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

At initial recognition, a financial liability is measured at fair value minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

The Croatian National Bank classifies its liabilities as liabilities subsequently measured at amortised cost, with the exception of banknotes and coins in circulation which are measured at their nominal value. Financial liabilities are not reclassified.

2.7 Repo and reverse repo agreements

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

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

2.8 Deposits with other banks

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

2.9 International Monetary Fund

The Croatian National Bank is the fiscal agent of the Republic of Croatia for the International Monetary Fund and the International Monetary Fund's depository. Balances with the International Monetary Fund consist of the membership quota, current account and deposit with the International Monetary Fund, while the due to the International Monetary Fund consists of bills of exchange, International Monetary Fund accounts number 1 and 2 and net cumulative allocations.

The current account and deposit as well as net cumulative allocations with the International Monetary Fund are denominated in Special Drawing Rights (XDR) and measured at amortised cost.

The membership quota, bills of exchange and International Monetary Fund accounts number 1 and 2 are measured at cost, denominated in kuna and linked to the XDR (they are revalued on the reporting date at the XDR exchange rate applicable on that date). As XDR amounts are not revalued, changes in these accounts are due to exchange differences.

2.10 Investments accounted for using the equity method

Since 1 July 2020 the Croatian National Bank holds a 100% share in the Croatian Monetary Institute so that this investment is considered as an investment in subsidiary, whereas until 30 June 2020 the Croatian National Bank had a significant influence in the Croatian Monetary Institute which was considered to be an associate. The Croatian National Bank accounts for its investment in the Croatian Monetary Institute using the equity method. The consolidated financial statements are not prepared given that the investment in the Croatian Monetary Institute is not significant from either a qualitative or quantitative perspective.

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

2.11 Precious metals

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

2.12 Currency in circulation

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

2.13 Cash and cash equivalents

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

2.14 Taxation

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

2.15 Property, plant, equipment and intangible assets

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

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

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to general reserves when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, the revaluation surplus is also transferred as the asset is used. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to general reserves are not made through profit or loss.

As a result of a reappraisal of the useful life of property, plant, equipment and intangible assets, and due to increased experience and new information, the accounting estimate of the useful life in the asset class furniture and equipment was changed in 2020, as shown in the table below.

Useful life of property, plant, equipment and intangible assets:

Asset class	Expected useful life in 2020 (number of years)	Expected useful life in 2019 (number of years)
Property	20 – 50	20 – 50
Computers and computing infrastructure	5 – 8	5 – 8
Furniture and equipment	2 – 20	4 – 20
Motor vehicles	4	4
Software and licences	2 – 10	2 – 10

The result of the new useful life estimate in the asset class furniture and equipment is that the depreciation costs for property, plant, equipment and intangible assets in the reporting period were HRK 281 thousands higher than the costs that would have been recognised if the useful life estimate had not changed.

2.16 Impairment of non-financial assets

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

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

Impairment loss is recognised in profit or loss.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit. Value in use is estimated by discounting expected future cash flows with the discount rate that reflects current market assessments of the time value of money and the risks specific to these assets.

An impairment loss recognised in prior periods is assessed on every reporting date to determine if there is any indication that impairment may have decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only up to the carrying amount of an asset net of amortisation or depreciation that would have been determined had no impairment loss been recognised for the asset in prior years.

2.17 Staff costs

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

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

2.18 Allocation of the surplus of income over expenditures and the coverage of the shortfall between income and expenditures

The surplus of income over expenditures is allocated to general reserves and to the State Budget in accordance with the Act on the Croatian National Bank. Pursuant to Article 35 of the Act on Amendments to the Act on the Croatian National Bank (Official Gazette 47/2020) the allocation of profit for the financial year 2020 is performed in compliance with the provisions of Article 57 of the Act on the Croatian National Bank (Official Gazette 75/2008 and 54/2013), which specifies the allocation of the surplus of income over expenditures and the coverage of the shortfall between income and expenditures. The Council of the Croatian National Bank determines the amount of the surplus of income over expenditures to be allocated to general reserves. The surplus of income over expenditures allocated to general reserves for the current financial year may neither be lower than net profit from the value adjustment of balance sheet items to changes in the exchange rate or market prices nor higher than 20% of the accumulated surplus of income over expenditures. By way of exception, if the surplus of income over expenditures is lower than net profit from the value adjustment of balance sheet items to changes in the exchange rate or market prices, the total surplus of income over expenditures is allocated to general reserves. The surplus of income over expenditures remaining after the allocation to general reserves constitutes extraordinary revenue to the State Budget. The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Any shortfall between income and expenditures that cannot be covered from general reserves is covered from the State Budget.

NOTE 3 – INTEREST INCOME

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Foreign currency deposits	3,577	62,608
Loans to domestic banks	17,018	24,874
Foreign currency reverse repo agreements	11,049	101,322
Foreign currency securities at amortised cost	11,341	3,945
Bonds of the Republic of Croatia at amortised cost	100,731	—
Securities at fair value through other comprehensive income	446,815	412,740
Foreign currency repo agreements (negative interest)	35,177	53,122
Other	6,414	769
<i>Total interest income calculated using the effective interest method</i>	<u>632,122</u>	<u>659,380</u>
Held-for-trading securities	<u>86,240</u>	<u>169,471</u>
<i>Total other interest income</i>	<u>86,240</u>	<u>169,471</u>
Total interest income	<u>718,362</u>	<u>828,851</u>

NOTE 4 – INTEREST EXPENSES

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Foreign currency repo agreements	8,908	89,310
Ministry of Finance deposits	9,166	59,776
Foreign currency deposits (negative interest)	47,646	56,687
Foreign currency reverse repo agreements (negative interest)	60,754	119,135
Leases	186	78
	<u>126,660</u>	<u>324,986</u>

NOTE 5 – NET FEE AND COMMISSION INCOME

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Fee and commission income (Note 5.a)	55,889	53,762
Fee and commission expenses (Note 5.b)	<u>(21,548)</u>	<u>(22,834)</u>
	<u>34,341</u>	<u>30,928</u>

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a) Fee and commission income

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Fees for the supervision of credit institutions	48,428	46,511
Other	7,461	7,251
	<u>55,889</u>	<u>53,762</u>

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

b) Fee and commission expenses

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Securities deposit and custody costs	10,067	11,660
Obligatory contribution to EBA budget	4,172	4,011
Other	7,309	7,163
	<u>21,548</u>	<u>22,834</u>

Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority – EBA) defines that competent authorities form part of a European System of Financial Supervision – ESFS, which also comprises the European Banking Authority (EBA). In accordance with the above Regulation, the Croatian National Bank, as the authority competent for the supervision of credit institutions, forms part of the European System of Financial Supervision (ESFS) and a representative of the Croatian National Bank participates as a member in the Board of Supervisors (BoS), EBA's managing authority. Every year, the EBA budget is adopted by the Board of Supervisors, in the manner laid down in Article 63 of the Regulation. The revenues of EBA funding the budget consist, among other things, of obligatory contributions from the national competent authorities, which are made in accordance with a formula based on the weighting of votes.

**NOTE 6 – NET RESULT FROM FINANCIAL ASSETS AT FAIR VALUE
THROUGH PROFIT OR LOSS**

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Net securities trading result	(15,158)	(28,963)
Realised gains from assets under management with international financial institutions	21,751	39,453
<i>Total realised gains/(losses)</i>	<u>6,593</u>	<u>10,490</u>
Net changes in the fair value of held-for-trading securities	(59,124)	(127,402)
Net result from revaluation of assets under management with international financial institutions	(750)	(691)
Net result from revaluation of precious metals	1,884	1,286
<i>Total unrealised gains/(losses)</i>	<u>(57,990)</u>	<u>(126,807)</u>
	<u>(51,397)</u>	<u>(116,317)</u>

**NOTE 7 – NET RESULT FROM DEBT SECURITIES AT FAIR VALUE
THROUGH OTHER COMPREHENSIVE INCOME**

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Net result from sale of EUR-denominated debt securities	113,699	75,222
Net result from sale of USD-denominated debt securities	–	(401)
	<u>113,699</u>	<u>74,821</u>

NOTE 8 – NET EXCHANGE DIFFERENCES

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Net unrealised exchange differences	(51,200)	809,729
Net realised exchange differences	49,636	23,897
	<u>(1,564)</u>	<u>833,626</u>

Increase in the EUR/HRK exchange rate (1.27%) and decrease in the USD/HRK exchange rate (7.68%) between the two reporting dates had the biggest effect on the net exchange differences.

NOTE 9 – OTHER INCOME

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Sale of numismatics and investment gold	1,135	3,880
Other revenues	5,285	7,158
	<u>6,420</u>	<u>11,038</u>

NOTE 10 – OPERATING EXPENSES

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Staff costs (Note 10.1)	203,055	186,407
Materials, services and administrative expenses	104,733	104,858
Costs of production of kuna banknotes and coins	69,808	68,002
Depreciation and amortisation costs	41,880	35,984
	<u>419,476</u>	<u>395,251</u>

Materials, services and administrative expenses include the costs of maintenance of office buildings and other fixed assets, overheads, network programmes maintenance costs, office supplies costs, small inventory costs, professional development costs and other current costs. Rental costs for short-term leases and leases for which the underlying asset is of low value amounted to HRK 2,133 thousands in 2020 (2019: HRK 1,862 thousands).

Depreciation costs for the right of use asset amount to HRK 2,793 thousands in 2020 (2019: HRK 1,208 thousands) and are reported under Depreciation and amortisation costs. The right-of-use asset is depreciated under the straight-line method, from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

NOTE 10.1 – STAFF COSTS

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Net salaries	103,984	93,157
Contributions from and contributions on salaries	54,680	49,399
Taxes and surtaxes	22,649	20,217
Other employee related expenses	21,742	23,634
	<u>203,055</u>	<u>186,407</u>

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The average number of employees during 2020 was 690 (2019: 671). Total staff costs for 2020 amount to HRK 203,055 thousands, of which the amount of HRK 32,938 thousands relates to contributions for pension insurance (2019: HRK 186,407 thousands, of which HRK 30,503 thousands was related to contributions for pension insurance).

NOTE 11 – IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Impairment losses on financial instruments		
Increase in expected credit losses according to IFRS 9	42,264	47,787
Decrease of expected credit losses according to IFRS 9	<u>(27,370)</u>	<u>(38,268)</u>
	<u>14,894</u>	<u>9,519</u>

There was no collection of financial assets that are referred to as stage 3 of credit quality of financial instruments. Changes in loss allowances for expected credit losses during the year are presented in Note 37.1.4.

NOTE 12 INCREASE/(DECREASE) IN PROVISIONS

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Provisions for risks and charges		
New provisions (Note 30)	14,077	23,223
Released provisions (Note 30)	<u>(11,142)</u>	<u>(10,222)</u>
	<u>2,935</u>	<u>13,001</u>

NOTE 13 CASH AND CURRENT ACCOUNTS WITH OTHER BANKS

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Cash on hand	2,177	970
Foreign currency cash in the CNB treasury vault	25,164,951	2,962,825
Current accounts with foreign banks	8,534,873	4,327,949
CNB account in TARGET2 system	64,615	59,574
	33,766,616	7,351,318
Loss allowance for expected credit losses	(411)	(204)
	33,766,205	7,351,114

Note 25 contains the explanations of TARGET2.

NOTE 14 DEPOSITS WITH OTHER BANKS

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Deposits with foreign central banks	11,739,112	15,194,343
Deposits with foreign commercial banks	337,700	133,421
Deposits with domestic commercial banks	2,082	2,946
	12,078,894	15,330,710
Loss allowance for expected credit losses	(6,703)	(8,810)
	12,072,191	15,321,900

Geographical concentration of deposits with other banks:

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Croatia	2,077	2,938
Europe	12,070,114	15,318,962
	12,072,191	15,321,900

NOTE 15 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>(All amounts are expressed in thousands of kuna)</i>	31/12 2020	31/12/2019
Held-for-trading securities (Note 15.a)	25,362,372	38,065,903
Assets under management with international financial institutions (Note 15.b)	1,228,636	1,331,694
Precious metals	9,411	7,525
	<u>26,600,419</u>	<u>39,405,122</u>

a) Held-for-trading securities

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
EUR-denominated securities	20,730,766	32,265,349
USD-denominated securities	4,631,606	5,800,554
	<u>25,362,372</u>	<u>38,065,903</u>

Held-for-trading securities include accrued interest in the amount of HRK 38,055 thousands at 31 December 2020 (31 December 2019: HRK 93,281 thousands).

b) Assets under management with international financial institutions

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
USD-denominated funds entrusted to the management of international financial institutions	1,228,636	1,331,694
	<u>1,228,636</u>	<u>1,331,694</u>

NOTE 16 – LOANS

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Loans to domestic banks	4,533,335	1,914,914
Other loans	29	34
	<u>4,533,364</u>	<u>1,914,948</u>
Loss allowance for expected credit losses	(1,319)	(540)
	<u>4,532,045</u>	<u>1,914,408</u>

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

Total fair value of collateral obtained for collateralised credits as at 31 December 2020 amounts to HRK 5,160,822 thousands (31 December 2019: HRK 2,144,026 thousands).

NOTE 17 – REVERSE REPO AGREEMENTS

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Foreign currency reverse repo agreements	4,729,869	11,467,741
	<u>4,729,869</u>	<u>11,467,741</u>
Loss allowance for expected credit losses	(225)	(571)
	<u>4,729,644</u>	<u>11,467,170</u>

Total fair value of collateral obtained by foreign currency reverse repo agreements (sovereign bonds of countries rated Aaa to Baa1, securities of international financial institutions rated Aaa and guaranteed bonds rated Aaa) as at 31 December 2020 amounts to HRK 4,689,013 thousands (31 December 2019: HRK 11,492,828 thousands).

NOTE 18 – DEBT SECURITIES AT AMORTISED COST

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Foreign currency debt securities (Note 18.a)	18,274,949	14,373,081
Bonds of the Republic of Croatia (Note 18.b)	19,994,169	–
	<u>38,269,118</u>	<u>14,373,081</u>
Loss allowance for expected credit losses	(25,836)	(7,687)
	<u>38,243,282</u>	<u>14,365,394</u>

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a) Foreign currency debt securities

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Foreign currency debt securities	18,197,441	14,308,359
Accrued interest	77,508	64,722
	<u>18,274,949</u>	<u>14,373,081</u>
Loss allowance for expected credit losses	(8,651)	(7,687)
	<u>18,266,298</u>	<u>14,365,394</u>

b) Bonds of the Republic of Croatia

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Bonds of the Republic of Croatia	19,842,648	–
Accrued interest	151,521	–
	<u>19,994,169</u>	<u>–</u>
Loss allowance for expected credit losses	(17,185)	–
	<u>19,976,984</u>	<u>–</u>

In an effort to maintain the liquidity and stability of the financial system, the Croatian National Bank responded to the coronavirus pandemic (COVID-19) by implementing a set of monetary policy measures, including the purchase of bonds of the Republic of Croatia.

NOTE 19 – BALANCES WITH THE INTERNATIONAL MONETARY FUND

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Membership quota	6,363,088	6,619,913
Special Drawing Rights (XDR)	2,696,453	2,803,820
Deposits	4,605	4,791
	<u>9,064,146</u>	<u>9,428,524</u>

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

Investments in debt securities at fair value through other comprehensive income comprise the following:

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Debt securities	44,419,450	47,174,201
Accrued interest	227,388	265,173
	44,646,838	47,439,374

Loss allowances for expected credit losses on debt securities at fair value through other comprehensive income amount to HRK 10,544 thousands (2019: HRK 12,363 thousands).

NOTE 21 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Investment in the Croatian Monetary Institute	51,076	25,736
	51,076	25,736

The investment of the Croatian National Bank in the Croatian Monetary Institute represents an investment in a subsidiary at year end while it was an associate until 30 June 2020 and it is accounted for using the equity method. The Croatian Monetary Institute does not have quoted market prices on an active market. The Croatian National Bank's share in the capital of the Croatian Monetary Institute was 42.6% until 30 June 2020. On 1 July 2020 the Croatian National Bank acquired a 100% share in the Croatian Monetary Institute.

The following table shows the most important data on the Croatian Monetary Institute on the date of the acquisition of control, 1 July 2020.

<i>(All amounts are expressed in thousands of kuna)</i>	
Total consideration paid in cash and cash equivalents	15,271
Total assets	95,100
Non-current assets	22,386
Amount of cash and cash equivalents of subsidiary	2,681
Other current assets	69,866
Prepayments and accrued income	167
Total liabilities	57,857
Current liabilities	57,857
Equity	34,562

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The share of the Croatian National Bank in the profit of the Croatian Monetary Institute for the year 2020 amounts to HRK 10,103 thousands, and total amount recognised in profit or loss which comprises the reconciliation of the share in the profit for the year 2019 amounts to HRK 10,069 thousands (2019: HRK 2,119 thousands).

The Croatian Monetary Institute is a domestic company whose core operation is the production of coins and medals of gold and other precious metals, production of coins and commemorative circulation coins, manufacturing of jewellery and related products, trade in gold and other precious metals, trade in jubilee coins and in medals of gold and other precious metals.

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

<i>(All amounts are expressed in thousands of kuna)</i>	2020	2019
Total assets	76,580	106,014
<i>Non-current assets</i>	21,353	36,458
<i>Current assets</i>	54,974	69,279
<i>Prepayments and accrued income</i>	253	277
Total liabilities	32,225	44,805
<i>Provisions</i>	–	500
<i>Current liabilities</i>	32,194	44,295
<i>Accruals and deferred income</i>	31	10
Equity	44,355	61,209
Total revenue	78,572	87,050
Total expenses	(66,258)	(80,008)
Profit before tax	12,314	7,042
<i>Income tax</i>	(2,220)	(1,303)
Profit for the period	10,094	5,739
Other comprehensive income	–	–
Total comprehensive income	10,094	5,739

The summarised financial information of the Croatian Monetary Institute is presented based on the audited financial statements of the Croatian Monetary Institute.

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NOTE 22 – OTHER ASSETS

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
BIS shares	41,914	41,914
SWIFT shares	80	80
ECB paid-up capital	19,954	17,171
Total equity securities at fair value through other comprehensive income – irrevocable election	61,948	59,165
Accrued interest	7,514	7,917
Other participants funds in TARGET2	5,726,455	4,467,861
Other financial assets	27,938	27,889
	5,761,907	4,503,667
Loss allowance for expected credit losses	(7,525)	(7,526)
Total other financial assets	5,754,382	4,496,141
Total financial assets	5,816,330	4,555,306
Prepaid expenses	479,648	443,181
Numismatics	11,377	9,458
Other non-financial assets	40,246	58,620
Total other non-financial assets	531,271	511,259
Total other assets	6,347,601	5,066,565

Equity securities at fair value through other comprehensive income – irrevocable election comprise paid-up capital of the European Central Bank (ECB), BIS shares and SWIFT shares. These investments are measured at cost because they do not have quoted market prices on an active market and their fair value cannot be reliably measured. The Croatian National Bank does not intend to sell them in the future.

Based on the ownership holding of 2,441 shares of the Bank for International Settlements (BIS), in the nominal value of XDR 5,000 per share, the Croatian National Bank is a member of the BIS, which enables it to use services the BIS provides to central banks and other financial organisations. In accordance with the Statute of the BIS, 25% of the shares subscribed was paid, while the remaining 75% is payable upon call for payment. No dividend payments were made on BIS shares in 2020 (2019: HRK 5,419 thousands).

The Croatian National Bank is also a member of the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Based on this membership, the Croatian National Bank participates in

international transfers of financial messages. Six SWIFT shares in the nominal value of EUR 125 per share held by the Croatian National Bank are fully paid in.

The paid-up capital of the European Central Bank (ECB) represents the participating interest of the Croatian National Bank in the ECB. According to Article 28 of the Statute of the European System of Central Banks (ESCB), the national central banks (NCBs) of the ESCB are the only subscribers to the ECB's capital. The subscriptions depend on the shares that are regulated by Article 29 of the Statute of the ESCB and the amounts are adjusted every five years. Since the Republic of Croatia is not part of the euro area, transitional provisions of Article 47 of the ESCB's Statute are applied, according to which the Croatian National Bank had an obligation to subscribe and pay in 3.75% of the capital to the ECB as a contribution to cover ECB's operating costs. The Croatian National Bank, as a non-euro area national central bank, is not entitled to receive an appropriate share of the ECB's profit distribution and there is no obligation to cover the ECB's loss.

As a result of the departure of the United Kingdom from the European Union on 31 January 2020 and the consequent withdrawal of the Bank of England from the European System of Central Banks, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted with effect from 1 February 2020 as follows:

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Table 1: The adjustment of the key for subscription to the ECB's capital as of 1 February 2020

NCB	Key for subscription to the ECB's capital	
	until 31 January 2020 (%)	from 1 February 2020 (%)
Nationale Bank van België/ Banque Nationale de Belgique	2.5280	2.9630
Deutsche Bundesbank	18.3670	21.4394
Eesti Pank	0.1968	0.2291
Central Bank of Ireland	1.1754	1.3772
Bank of Greece	1.7292	2.0117
Banco de España	8.3391	9.6981
Banque de France	14.2061	16.6108
Banca d'Italia	11.8023	13.8165
Central Bank of Cyprus	0.1503	0.1750
Latvijas Banka	0.2731	0.3169
Lietuvos bankas	0.4059	0.4707
Banque centrale du Luxembourg	0.2270	0.2679
Central Bank of Malta	0.0732	0.0853
De Nederlandsche Bank	4.0677	4.7662
Oesterreichische Nationalbank	2.0325	2.3804
Banco de Portugal	1.6367	1.9035
Banka Slovenije	0.3361	0.3916
Národná banka Slovenska	0.8004	0.9314
Suomen Pankki – Finland's Bank	1.2708	1.4939
Subtotal for euro area NCBs	69.6176	81.3286
Българска народна банка (Bulgarian National Bank)	0.8511	0.9832
Česká národní banka	1.6172	1.8794
Danmarks Nationalbank	1.4986	1.7591
Hrvatska narodna banka	0.5673	0.6595
Magyar Nemzeti Bank	1.3348	1.5488
Narodowy Bank Polski	5.2068	6.0335
Banca Națională a României	2.4470	2.8289
Sveriges Riksbank	2.5222	2.9790
Bank of England	14.3374	–
Subtotal for non-euro area NCBs	30.3824	18.6714
TOTAL	100.00	100.00

The European Central Bank kept its subscribed capital unchanged at EUR 10,825,007 thousands after the Bank of England's withdrawal from the European System of Central Banks. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area and remaining non-euro area NCBs. Accordingly, the share of the Croatian National Bank in the ECB's subscribed capital increased from 0.5673% to 0.6595%. As a result, the Croatian National Bank paid up its increased subscription to the ECB's capital of EUR 374 thousands in 2020.

The Croatian National Bank's share in the subscribed and paid-up capital of the ECB amounts to EUR 71,391 thousands and EUR 2,677 thousands respectively.

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Table 2: Subscribed and paid-up capital of the ECB

(All amounts are expressed in thousands of kuna)

NCB	Subscribed capital until 31 January 2020	Paid-up capital until 31 January 2020	Subscribed capital from 1 February 2020	Paid-up capital as at 31 December 2020*
Nationale Bank van België/ Banque Nationale de Belgique	273,656	273,656	320,745	276,291
Deutsche Bundesbank	1,988,229	1,988,229	2,320,817	1,999,160
Eesti Pank	21,304	21,304	24,800	21,363
Central Bank of Ireland	127,237	127,237	149,082	128,420
Bank of Greece	187,186	187,186	217,767	187,585
Banco de España	902,708	902,708	1,049,820	904,319
Banque de France	1,537,811	1,537,811	1,798,120	1,548,908
Banca d'Italia	1,277,600	1,277,600	1,495,637	1,288,347
Central Bank of Cyprus	16,270	16,270	18,944	16,318
Latvijas Banka	29,563	29,563	34,304	29,550
Lietuvos bankas	43,939	43,939	50,953	43,891
Banque centrale du Luxembourg	24,573	24,573	29,000	24,981
Central Bank of Malta	7,924	7,924	9,234	7,954
De Nederlandsche Bank	440,329	440,329	515,941	444,434
Oesterreichische Nationalbank	220,018	220,018	257,678	221,965
Banco de Portugal	177,173	177,173	206,054	177,496
Banka Slovenije	36,383	36,383	42,391	36,516
Národná banka Slovenska	86,643	86,643	100,824	86,850
Suomen Pankki – Finlands Bank	137,564	137,564	161,715	139,302
Subtotal for euro area NCBs*	7,536,110	7,536,110	8,803,826	7,583,650
Българска народна банка (Bulgarian National Bank)	92,132	3,455	106,431	3,991
Česká národní banka	175,062	6,565	203,445	7,629
Danmarks Nationalbank	162,224	6,083	190,423	7,141
Hrvatska narodna banka	61,410	2,303	71,391	2,677
Magyar Nemzeti Bank	144,492	5,419	167,658	6,287
Narodowy Bank Polski	563,636	21,136	653,127	24,492
Banca Națională a României	264,888	9,933	306,229	11,484
Sveriges Riksbank	273,028	10,239	322,477	12,093
Bank of England	1,552,025	58,201	–	–
Subtotal for non-euro area NCBs*	3,288,897	123,334	2,021,181	75,794
TOTAL*	10,825,007	7,659,444	10,825,007	7,659,444

*Euro area national central banks will pay up the whole amounts of their subscribed capital, increased due to the withdrawal of the Bank of England from the European System of Central Banks, in two annual instalments, at the end of 2021 and 2022.

Accrued interest comprises remuneration charged in the case of irregular allocation of and failure to maintain foreign exchange reserve requirements and accrued negative interest on financial liabilities with the negative interest rate.

The major portion of the prepaid expenses in the amount of HRK 465,642 thousands (2019: HRK 429,393 thousands) relates to the prepaid expenses of the production of kuna banknotes and coins.

Note 25 contains the explanations of TARGET2.

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NOTE 23 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

(All amounts are expressed in thousands of kuna)

Balance at 1 January 2019

Cost or revaluation	501,282	256	211,511	43,230	9,241	15,170	780,690	89,270	9,866	99,136	879,826
Accumulated depreciation/amortisation	(37,302)	–	(154,038)	(37,132)	(8,864)	–	(237,336)	(63,188)	–	(63,188)	(300,524)
Net book value	463,980	256	57,473	6,098	377	15,170	543,354	26,082	9,866	35,948	579,302

For the year ended 31 December 2019

Opening net book amount	463,980	256	57,473	6,098	377	15,170	543,354	26,082	9,866	35,948	579,302
Additions	–	8,713	–	–	–	43,140	51,853	–	2,949	2,949	54,802
Brought into use	2,911	–	52,115	3,394	208	(38,628)	–	10,364	(10,364)	–	–
Revaluation	23,308	–	–	–	–	–	23,308	–	–	–	23,308
Impairment	(590)	–	–	–	–	–	(590)	–	–	–	(590)
Net written off	–	–	(1)	(14)	–	–	(15)	–	–	–	(15)
Depreciation/amortisation (charge for the year, Note 10)	(8,228)	(1,208)	(19,582)	(2,493)	(117)	–	(31,628)	(4,355)	–	(4,355)	(35,983)
Closing net book amount	481,381	7,761	70,005	6,985	468	19,682	586,282	32,091	2,451	34,542	620,824

As at 31 December 2019

Cost or revaluation	481,381	8,969	258,696	45,707	9,449	19,682	803,884	99,634	2,451	102,085	905,969
Accumulated depreciation/amortisation	–	(1,208)	(188,691)	(58,722)	(8,981)	–	(217,602)	(67,543)	–	(67,543)	(285,145)
Net book value	481,381	7,761	70,005	6,985	468	19,682	586,282	32,091	2,451	34,542	620,824

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NOTE 23 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

(All amounts are expressed in thousands of kuna)

	Property owned by the CNB (land and buildings)	Right-of-use buildings (office buildings)	Computers	Furniture and equipment	Motor vehicles	Assets under development – property, plant, equipment	TOTAL PROPERTY, PLANT AND EQUIPMENT	Software and licences	Assets under development – intangible assets	TOTAL INTANGIBLE ASSETS	TOTAL property, plant, equipment and intangible assets
Balance at 1 January 2020											
Cost or revaluation	481,381	8,969	238,696	45,707	9,449	19,682	803,884	99,634	2,451	102,085	905,969
Accumulated depreciation/amortisation	–	(1,208)	(168,691)	(38,722)	(8,981)	–	(217,602)	(67,545)	–	(67,545)	(285,145)
Net book value	481,381	7,761	70,005	6,985	468	19,682	586,282	32,091	2,451	34,542	620,824
For the year ended 31 December 2020											
Opening net book amount	481,381	7,761	70,005	6,985	468	19,682	586,282	32,091	2,451	34,542	620,824
Additions	–	457	–	–	–	13,191	13,648	–	17,605	17,605	31,253
Brought into use	62	–	17,471	5,132	–	(22,663)	–	1,331	(1,331)	–	–
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	–	–	–
Net written off	–	–	(12)	(17)	–	–	(29)	–	–	–	(29)
Depreciation/amortisation (charge for the year, Note 10)	(7,384)	(2,793)	(23,095)	(3,161)	(165)	–	(36,598)	(3,282)	–	(5,282)	(41,880)
Closing net book amount	474,059	5,425	64,369	8,939	303	10,208	563,303	28,140	18,725	46,865	610,168
As at 31 December 2020											
Cost or revaluation	481,443	9,170	252,515	49,283	8,977	10,208	811,596	100,965	18,725	119,690	931,286
Accumulated depreciation/amortisation	(7,384)	(3,745)	(188,146)	(40,344)	(8,674)	–	(248,293)	(72,825)	–	(72,825)	(321,118)
Net book value	474,059	5,425	64,369	8,939	303	10,208	563,303	28,140	18,725	46,865	610,168

NOTE 23 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS
(CONTINUED)

The revalued amounts of fixed assets (land and buildings) were determined based on appraisals performed by independent experts in 2019, and the revaluation effect is presented in other comprehensive income. The valuation technique used to determine fair value was the cost method. Certain significant inputs for valuation were not observable market data (Level 3 of fair value hierarchy). The input data were data from the property market information system "eNekretnine" and construction indicators for a model object from the Bulletin of Institut IGH d.d., which were used in individual assessments of the property value pursuant to the Property Valuation Act and the Ordinance on the property valuation methods as well as other relevant regulations on property valuation.

If the land and buildings were carried at cost less depreciation their net book value as at 31 December 2020 would be HRK 132,045 thousands (2019: HRK 134,660 thousands). The property, plant and equipment of the Croatian National Bank are not pledged, either as part of mortgage agreements or as a fiduciary relationship. The Zagreb earthquake of 22 March 2020² caused damage to the buildings owned by the Croatian National Bank and the buildings where CNB's offices are located. However, these buildings' mechanical resistance was not impaired and they have since been regularly and routinely used. Following the earthquake of 29 December 2020 with the epicentre near Petrinja, which heavily rocked the buildings in Zagreb, all buildings and offices owned by the CNB were examined. The examination established that there were no new defects or damages relative to the condition before the Petrinja earthquake so that all CNB's buildings and offices have been used regularly in the regime applicable until 29 December 2020.

At the reporting date, there were no intangible assets with indefinite useful life. As at 31 December 2020, contractual commitments for the acquisition of property, plant and equipment amounted to HRK 2,977 thousands (2019: HRK 1,798 thousands), while there were no contractual commitments for the acquisition of intangible assets (2019: HRK 2,191 thousands).

The gross carrying amount of fully depreciated assets amounts to HRK 221,985 thousands (2019: HRK 152,516 thousands). The carrying amount of land that is not depreciated amounts to HRK 114,178 thousands (2019: HRK 114,178 thousands).

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NOTE 24 BANKNOTES AND COINS IN CIRCULATION

(All amounts are expressed in thousands of kuna)

	2020	2019
Banknotes and coins in circulation as at January 1	38,734,616	35,046,160
Increase/(decrease) of banknotes and coins in circulation during the year	3,058,062	3,688,456
Banknotes and coins in circulation – total as at 31 December	41,792,678	38,734,616

In HRK	Nominal value	31/12/2020		31/12/2019	
		Pieces	Value in thousands of kuna	Pieces	Value in thousands of kuna
Coins	0.01	128,096,234	1,281	127,787,238	1,278
Coins	0.02	85,746,912	1,715	85,742,921	1,715
Coins	0.05	418,770,808	20,939	405,827,534	20,291
Coins	0.10	602,359,529	60,236	587,529,874	58,753
Coins	0.20	470,993,381	94,199	455,328,197	91,066
Coins	0.50	273,545,238	136,773	266,209,895	133,105
Coins	1	308,756,200	308,756	302,798,298	302,798
Coins	2	190,830,614	381,661	186,122,191	372,244
Coins	5	129,006,476	645,032	125,010,988	625,055
Coins	25	1,364,201	34,105	1,315,613	32,890
Banknotes	5	4,122,545	20,613	4,124,081	20,620
Banknotes	10	53,218,620	532,186	52,586,315	525,863
Banknotes	20	37,639,522	752,790	37,171,874	743,438
Banknotes	50	18,722,968	936,148	20,042,177	1,002,109
Banknotes	100	47,539,398	4,753,940	45,031,262	4,503,126
Banknotes	200	96,089,661	19,217,932	89,916,703	17,983,341
Banknotes	500	9,461,267	4,730,634	8,971,768	4,485,884
Banknotes	1,000	9,163,738	9,163,738	7,831,040	7,831,040
TOTAL			41,792,678		38,734,616

NOTE 25 – DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Kuna reserve requirements	19,956,987	24,890,304
Foreign currency accounts of TARGET2 system participants	5,726,455	4,467,861
Other deposits from domestic banks	64,769,838	44,993,153
Deposits from foreign banks and other financial institutions	72	72
Court-mandated deposits	270,124	273,406
	90,723,476	74,624,796

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Due to banks and other financial institutions also comprises foreign currency accounts of participants in the TARGET2 system. TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer system) is a payment system for the settlement of payment transactions in euro on a gross basis in real time. TARGET2 is a system with the Single Shared Platform (SSP), jointly administered by Banca d'Italia, Banque de France and Deutsche Bundesbank on behalf of the Eurosystem. In addition to this Note to the financial statements, business activities related to TARGET2 are presented in the balance sheet positions Cash and current accounts with other banks (see Note 13) and Other assets (see Note 22).

Court-mandated deposits of banks are assets foreclosed pursuant to the Act on the Execution of Enforcement over Monetary Assets.

NOTE 26 REPO AGREEMENTS

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Foreign currency repo agreements	3,756,698	5,998,829
	<u>3,756,698</u>	<u>5,998,829</u>

Total fair value of collateral given in repo agreements as at 31 December 2020 amounts to HRK 3,752,077 thousands (31 December 2019: HRK 5,956,987 thousands).

NOTE 27 – DUE TO THE STATE AND STATE INSTITUTIONS

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Domestic currency account balances	14,740,134	6,642,591
Foreign currency deposits	2,981,935	70,003
	<u>17,722,069</u>	<u>6,712,594</u>

NOTE 28 – DUE TO THE INTERNATIONAL MONETARY FUND

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Kuna-denominated bills of exchange	6,344,334	6,600,618
Net cumulative allocations	2,688,716	2,797,255
Other IMF's accounts	15,975	16,619
	<u>9,049,025</u>	<u>9,414,492</u>

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

Pursuant to the Resolution of the Board of Governors of the International Monetary Fund approving allocation of special drawing rights for the ninth basic period adopted in 2009, the Republic of Croatia has been assigned funds in the amount of XDR 271 million (general allocation). Moreover, pursuant to the Resolution of the Board of Governors of the International Monetary Fund on the Fourth Amendment of the Articles of Agreement, the Republic of Croatia has been provided a special one-time allocation of XDRs in the amount of XDR 32 million in 2009. The Government of the Republic of Croatia may adopt a special decision on the withdrawal of funds or a portion of funds provided through the general and special one-time allocations.

NOTE 29 – OTHER LIABILITIES

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Accrued interest	4,469	13,694
Amounts due to employees	9,011	8,241
Taxes and contributions	8,073	6,764
Obligations to European Commission in EUR	663	484
Obligations to European Commission in HRK	287,636	414,609
Due to the Ministry of Finance	229,240	133,153
Trade payables	23,338	31,339
Other liabilities	132,007	19,046
	694,437	627,330

The European Commission has opened EUR and HRK transaction accounts and the European Development Fund Account in euro with the Croatian National Bank for the performance of payment transactions.

Other liabilities in 2020 includes the present value of the lease liability of HRK 4,864 thousands (2019: 6,834 thousands) and the liabilities for short-term leases and leases for which the underlying asset is of low value of HRK 161 thousands (2019: HRK 176 thousands). The present value of the lease liability is calculated using the discount rate of the Croatian National Bank, which stood at 3% on 31 December 2020 (on 31 December 2019 it was 3%).

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NOTE 30 – PROVISIONS FOR RISKS AND CHARGES

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020	31/12/2019
Liabilities for court cases	36,535	36,545
Provisions for employee benefits	26,167	23,222
	62,702	59,767

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

<i>(All amounts are expressed in thousands of kuna)</i>	Court cases	Employee benefits	Total
As at 1 January 2020	36,545	23,222	59,767
Released provisions (Note 12)	(10)	(11,132)	(11,142)
New provisions (Note 12)	–	14,077	14,077
Recognised in profit or loss	(10)	2,945	2,935
As at 31 December 2020	36,535	26,167	62,702

<i>(All amounts are expressed in thousands of kuna)</i>	Court cases	Employee benefits	Total
As at 1 January 2019	24,822	21,944	46,766
Released provisions (Note 12)	–	(10,222)	(10,222)
New provisions (Note 12)	11,723	11,500	23,223
Recognised in profit or loss	11,723	1,278	13,001
As at 31 December 2019	36,545	23,222	59,767

NOTE 31 – EQUITY

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

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

Total reserves as at 31 December 2020 amount to HRK 14,362,530 thousands, which is an increase of HRK 628,823 thousands from 31 December 2019 when they stood at HRK 13,733,707 thousands. The increase in total reserves resulted from the rise in general reserves brought about by the allocation of a portion of the profit for 2020 into general reserves (HRK 53,193 thousands) and from other comprehensive income of HRK 575,630 thousands.

NOTE 32 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

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32.1 Maturity analysis of assets and liabilities

<i>(All amounts are expressed in thousands of kuna)</i>	Up to 12 months	More than 12 months	Total
As at 31 December 2020			
Assets			
Cash and current accounts with other banks	33,766,205	—	33,766,205
Deposits with other banks	12,070,702	1,489	12,072,191
Financial assets at fair value through profit or loss	25,362,373	1,238,046	26,600,419
Loans	—	4,532,045	4,532,045
Reverse repo agreements	4,729,644	—	4,729,644
Debt securities at amortised cost	1,351,175	36,892,107	38,243,282
Balances with the International Monetary Fund	2,696,453	6,367,693	9,064,146
Debt securities at fair value through other comprehensive income	44,646,838	—	44,646,838
Investments accounted for using the equity method	—	51,076	51,076
Other assets	5,891,064	456,537	6,347,601
Property, plant, equipment and intangible assets	34	610,134	610,168
Total assets	130,514,488	50,149,127	180,663,615
Liabilities			
Banknotes and coins in circulation	41,792,678	—	41,792,678
Due to banks and other financial institutions	90,723,404	72	90,723,476
Repo agreements	3,756,698	—	3,756,698
Due to the State and State institutions	17,722,069	—	17,722,069
Due to the International Monetary Fund	—	9,049,025	9,049,025
Other liabilities	691,495	2,942	694,437
Provisions for risks and charges	62,702	—	62,702
Total liabilities	154,749,046	9,052,039	163,801,085
Net position	(24,234,558)	41,097,088	16,862,530

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32.1 Maturity analysis of assets and liabilities (continued)

<i>(All amounts are expressed in thousands of kuna)</i>	Up to 12 months	More than 12 months	Total
As at 31 December 2019			
Assets			
Cash and current accounts with other banks	7,351,114	–	7,351,114
Deposits with other banks	15,319,926	1,974	15,321,900
Financial assets at fair value through profit or loss	38,065,903	1,339,219	39,405,122
Loans	94,721	1,819,687	1,914,408
Reverse repo agreements	11,467,170	–	11,467,170
Debt securities at amortised cost	64,722	14,300,672	14,365,394
Balances with the International Monetary Fund	2,803,820	6,624,704	9,428,524
Debt securities at fair value through other comprehensive income	47,439,374	–	47,439,374
Investments accounted for using the equity method	–	25,736	25,736
Other assets	4,645,692	420,873	5,066,565
Property, plant, equipment and intangible assets	48	620,776	620,824
Total assets	127,252,490	25,153,641	152,406,131
Liabilities			
Banknotes and coins in circulation	38,734,616	–	38,734,616
Due to banks and other financial institutions	74,624,724	72	74,624,796
Repo agreements	5,998,829	–	5,998,829
Due to the State and State institutions	6,712,594	–	6,712,594
Due to the International Monetary Fund	–	9,414,492	9,414,492
Other liabilities	622,145	5,185	627,330
Provisions for risks and charges	59,767	–	59,767
Total liabilities	126,752,675	9,419,749	136,172,424
Net position	499,815	15,733,892	16,233,707

Note: According to convention, the amount of the kuna component of reserve requirements of HRK 19,956,987 thousands (2019: 24,890,304 thousands) is stated in the position Due to banks and other financial institutions with a maturity of up to 12 months. The calculation, maintenance and allocation of reserve requirements is performed on a monthly basis and a change in the amount of reserves may result from changes in the base for calculation, the reserve requirement rate and the percentage of the reserves banks are required to hold in their accounts with the Croatian National Bank. In practice, these liabilities may be considered as having a maturity of over 12 months and in that case the short-term liabilities would be lower than the short-term assets. Debt securities at fair value through other comprehensive income and at fair value through profit or loss are included in the period up to 12 months due to their high marketability in the secondary market, regardless of their contractual maturities. Assets and liabilities without contractual maturities are included in the period more than 12 months.

NOTE 33 – CONTINGENT LIABILITIES AND COMMITMENTS AND TREASURY INVENTORY SYSTEM

Legal actions: As at 31 December 2020, there were several legal actions outstanding against the Croatian National Bank. In the opinion of the management and internal legal advisers of the Croatian National Bank, the Bank may lose certain cases. As a result, provisions for potential losses on such cases were made by the Bank in the amount of HRK 36,535 thousands (see Note 30).

Capital commitments: As at 31 December 2020, the capital commitments of the Croatian National Bank amounted to HRK 2,977 thousands (2019: HRK 3,754 thousands).

Treasury inventory system

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Banknotes and coins not in circulation	46,494,179	44,546,507
Inventory of government stamps and bill-of-exchange forms	54,375	102,318
	<u>46,548,554</u>	<u>44,648,825</u>

NOTE 34 CASH AND CASH EQUIVALENTS

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Cash on hand (Note 13)	2,177	970
Foreign currency cash in the CNB treasury vault (Note 13)	25,164,951	2,962,825
Current accounts with foreign banks (Note 13)	8,534,873	4,327,949
Funds with the IMF (Note 19)	2,696,453	2,803,820
CNB account in TARGET2 system (Note 13)	64,615	59,574
	<u>36,463,069</u>	<u>10,155,138</u>

NOTE 35 – RESULT FOR THE YEAR

(All amounts are expressed in thousands of kuna)

	31/12/2020	31/12/2019
Surplus of income over expenditures	265,965	927,138
Allocated to general reserves	(53,193)	(809,729)
Allocated to the State Budget	(212,772)	(117,409)
	<u>—</u>	<u>—</u>

The Croatian National Bank realised the surplus of income over expenditures for the year 2020 in the amount of HRK 265,965 thousands.

Given that in 2020 net unrealized exchange differences of HRK 51,200 thousands were negative (see Note 8), and the sum of net unrealized losses on financial assets at fair value through profit or loss (see Note 6) and the results from investment measured under equity method was negative (HRK 47,921 thousands), the CNB allocates to the general reserves 20% of the surplus of income over expenditures in the amount of HRK 53,193 thousands. The remaining profit in the amount of HRK 212,772 thousands is allocated to the State Budget.

The Croatian National Bank realised the surplus of income over expenditures for the year 2019 in the amount of HRK 927,138 thousands and, given that in 2019 net unrealised exchange differences of HRK 809,729 thousands (see Note 8) were positive and higher than 20% of the surplus of income over expenditures of HRK 185,428 thousands and that the sum of net unrealised losses on financial assets at fair value through profit or loss (see Note 6) and the results from investment measured under equity method was negative (HRK 124,688 thousands), net unrealised exchange differences were allocated to the general reserves. The remaining profit in the amount of HRK 117,409 thousands was allocated to the State Budget.

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

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

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

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36.1 Financial assets and liabilities measured at fair value

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

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020		Total
	Level 1	Level 2	
Financial assets at fair value through profit or loss			
<i>Foreign currency securities held for trading</i>			
Government securities	19,790,678	4,551,212	24,341,890
Guaranteed bonds	179,770	—	179,770
Bank bonds with government guarantees	—	840,712	840,712
<i>Total securities held for trading (Note 15.a)</i>	<i>19,970,448</i>	<i>5,391,924</i>	<i>25,362,372</i>
<i>Assets under management with international financial institutions (Note 15.b)</i>	<i>1,228,636</i>	—	<i>1,228,636</i>
<i>Precious metals</i>	<i>9,411</i>	—	<i>9,411</i>
Total financial assets at fair value through profit or loss	21,208,495	5,391,924	26,600,419
Debt securities at fair value through other comprehensive income			
<i>Foreign currency securities at fair value through other comprehensive income</i>			
Government securities	40,573,577	—	40,573,577
Guaranteed bonds	510,810	—	510,810
Securities of international financial institutions	2,720,513	—	2,720,513
Bank bonds with government guarantees	841,938	—	841,938
<i>Total debt securities at fair value through other comprehensive income (Note 20)</i>	<i>44,646,838</i>	—	<i>44,646,838</i>
Total debt securities at fair value through other comprehensive income	44,646,838	—	44,646,838
Total	65,855,333	5,391,924	71,247,257

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(All amounts are expressed in thousands of kuna)	31/12/2019		
	Level 1	Level 2	Total
Financial assets at fair value through profit or loss			
<i>Foreign currency securities held for trading</i>			
Government securities	24,949,818	7,673,427	32,623,245
Guaranteed bonds	3,416,440	–	3,416,440
Securities of international financial institutions	685,337	219,450	904,787
Bank bonds with government guarantees	677,569	443,862	1,121,431
<i>Total securities held for trading (Note 15.a)</i>	<i>29,729,164</i>	<i>8,336,739</i>	<i>38,065,903</i>
<i>Assets under management with international financial institutions (Note 15.b)</i>	<i>1,331,694</i>	<i>–</i>	<i>1,331,694</i>
<i>Precious metals</i>	<i>7,525</i>	<i>–</i>	<i>7,525</i>
Total financial assets at fair value through profit or loss	31,068,383	8,336,739	39,405,122
Debt securities at fair value through other comprehensive income			
<i>Foreign currency securities at fair value through other comprehensive income</i>			
Government securities	43,170,073	–	43,170,073
Guaranteed bonds	657,082	–	657,082
Securities of international financial institutions	2,541,175	–	2,541,175
Bank bonds with government guarantees	838,478	232,566	1,071,044
<i>Total debt securities at fair value through other comprehensive income (Note 20)</i>	<i>47,206,808</i>	<i>232,566</i>	<i>47,439,374</i>
Total debt securities at fair value through other comprehensive income	47,206,808	232,566	47,439,374
Total	78,275,191	8,569,305	86,844,496

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36.2 Financial assets and liabilities not measured at fair value

The comparison of book and fair values of loans and debt securities at amortised cost is presented in the following table.

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2020			
	Level 1	Level 2	Total market value	Book value
Loans	—	4,538,097	4,538,097	4,532,045
Foreign currency debt securities	18,879,122	—	18,879,122	18,266,298
Bonds of the Republic of Croatia	20,232,119	—	20,232,119	19,976,984

<i>(All amounts are expressed in thousands of kuna)</i>	31/12/2019			
	Level 1	Level 2	Total market value	Book value
Loans	—	1,912,469	1,912,469	1,914,408
Foreign currency debt securities	14,292,217	—	14,292,217	14,365,394

Investments in equity securities are designated as financial assets at fair value through other comprehensive income and include investments in BIS shares, SWIFT shares and ECB paid-up capital. These investments are measured at cost because they do not have quoted market prices on an active market and their fair value cannot be reliably measured. The Croatian National Bank does not intend to sell them in the future. Other central banks, which present their financial statements according to IFRS, measure fair value of investment in BIS shares in the amount of 70%-100% of net asset value of the BIS, or use their own valuation models.

Special drawing rights within Balances with the IMF are short-term assets translated into kuna using the XDR exchange rate at the reporting date; hence their book value may be regarded as their fair value. The membership quota and liabilities with the IMF have no contractual maturities so that they are because of their nature considered long-term instruments and their fair value cannot be reliably estimated.

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

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36.3 Classification of financial assets and liabilities

Classification of financial assets and liabilities for 2020

(All amounts are expressed in thousands of kuna)

(All amounts are expressed in thousands of kuna)

Category of financial assets/liabilities	Book value as at 31/12/2020	Income statement			Net result from financial assets at fair value through other comprehensive income	Other comprehensive income	
		Interest income calculated using the effective interest method	Other interest income	Interest expenses		Net result from financial assets at fair value through profit or loss	Net changes in fair value
Financial assets at amortised cost:	108,161,895	143,716	-	(108,400)	-	-	-
Cash and current accounts with other banks	53,766,205	-	-	-	-	-	-
Deposits with other banks	12,072,191	3,377	-	(47,646)	-	-	-
Loans	4,532,045	17,018	-	-	-	-	-
Reverse repo agreements	4,729,644	11,049	-	(60,754)	-	-	-
Foreign currency debt securities	18,266,298	11,341	-	-	-	-	-
Bonds of the Republic of Croatia	19,976,984	100,731	-	-	-	-	-
Balances with the International Monetary Fund	9,064,146	-	-	-	-	-	-
Other assets**	3,754,382	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income:	44,708,786	446,815	-	-	113,699	689,329	(113,699)
Debt securities at fair value through other comprehensive income	44,646,838	446,815	-	-	113,699	689,329	(113,699)
Equity securities at fair value through other comprehensive income – irrevocable election	61,948	-	-	-	-	-	-
Financial assets at fair value through profit or loss:	26,600,419	-	86,240	-	(51,397)	-	-
Held-for-trading securities	25,362,372	-	86,240	-	(74,282)	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	1,238,047	-	-	-	22,885	-	-
Assets under management with international financial institutions	1,228,636	-	-	-	21,001	-	-
Precious metals	9,411	-	-	-	1,884	-	-
Financial liabilities at amortised cost:	121,945,705	41,591	-	(18,260)	-	-	-
Due to banks and other financial institutions	90,723,476	-	-	-	-	-	-
Repo agreements	3,756,698	35,177	-	(8,908)	-	-	-
Due to the State and State institutions	17,722,069	6,386	-	(9,166)	-	-	-
Due to the International Monetary Fund	9,049,025	-	-	-	-	-	-
Other liabilities**	694,437	28	-	(186)	-	-	-

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36.3 Classification of financial assets and liabilities

Classification of financial assets and liabilities for 2019

(All amounts are expressed in thousands of kuna)

Category of financial assets/liabilities	Book value as at 31/12/2019	Income statement			Other comprehensive income	
		Interest income calculated using the effective interest method	Other interest income	Interest expenses	Net result from financial assets at fair value through profit or loss	Net result from financial assets at fair value through other comprehensive income
Financial assets at amortised cost*	64,344,651	192,749	-	(175,822)	-	-
Cash and current accounts with other banks	7,351,114	-	-	-	-	-
Deposits with other banks	15,321,900	62,608	-	(56,687)	-	-
Loans	1,914,408	24,874	-	-	-	-
Reverse repo agreements	11,467,170	101,322	-	(119,135)	-	-
Debt securities at amortised cost	14,365,394	3,945	-	-	-	-
Balances with the International Monetary Fund	9,428,524	-	-	-	-	-
Other assets**	4,496,141	-	-	-	-	-
Financial assets at fair value through other comprehensive income:	47,498,539	412,740	-	-	1,004,054	(74,821)
Debt securities at fair value through other comprehensive income	47,439,374	412,740	-	-	1,004,054	(74,821)
Equity securities at fair value through other comprehensive income – irrevocable election	59,165	-	-	-	-	-
Financial assets at fair value through profit or loss:	39,405,122	-	169,471	-	(116,317)	-
Held-for-trading securities	38,065,903	-	169,471	-	(156,363)	-
Non-trading financial assets mandatorily at fair value through profit or loss	1,339,219	-	-	-	40,048	-
Assets under management with international financial institutions	1,331,694	-	-	-	38,762	-
Precious metals	7,523	-	-	-	1,286	-
Financial liabilities at amortised cost*	97,378,041	53,891	-	(149,164)	-	-
Due to banks and other financial institutions	74,624,796	6	-	-	-	-
Repo agreements	3,998,829	55,122	-	(89,310)	-	-
Due to the State and State institutions	6,712,594	732	-	(59,776)	-	-
Due to the International Monetary Fund	9,414,492	-	-	-	-	-
Other liabilities**	627,330	31	-	(78)	-	-

* During the reporting period there were no effects of the derecognition of financial assets at amortised cost.

** Other assets include negative interest on repo agreements, and other liabilities include negative interest on financial assets.

NOTE 37 – RISK MANAGEMENT

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

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

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

NOTE 37.1 – CREDIT RISK

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

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

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

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

The Croatian National Bank invests the international reserve funds in government bonds and government guaranteed bonds of countries rated Aaa to Baa3 (Moody's), guaranteed bonds rated Aaa to Aa2, reverse repo agreements with commercial banks rated Aaa to Baa3, deposits with central banks rated Aaa to Baa3, instruments with international financial institutions rated Aaa to A2, and deposits placed with commercial banks rated Aaa to A3 for the purpose of carrying out foreign currency transactions.

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

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

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NOTE 37.1 – CREDIT RISK (continued)

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

<i>(All amounts are expressed in thousands of kuna)</i>	Rating (Moody's)	31/12/2020	31/12/2019
Foreign currency securities held for trading			
Government securities			
	Aaa	21,247,020	18,683,460
	Aa1	1,223,414	853,951
	Aa2	800,810	4,133,020
	Aa3	220,071	67,922
	A1	124,130	—
	Baa1	—	1,192,419
	Baa3	—	4,356,714
	AAA ^a	603,501	3,222,420
	AA+ ^b	—	—
	AA ^a	122,944	113,339
Total government securities		24,341,890	32,623,245
Guaranteed bonds			
	Aaa	179,770	2,892,683
	AAA ^a	—	523,757
Total guaranteed bonds		179,770	3,416,440
Securities of international financial institutions			
	Aaa	—	219,450
	Aa1	—	685,337
Total securities of international financial institutions		—	904,787
Bank bonds with government guarantees			
	Aaa	699,575	798,931
	Aa1	141,137	322,500
Total bank bonds with government guarantees		840,712	1,121,431
Total foreign currency securities held for trading		25,362,372	38,065,903
Foreign currency securities at amortised cost			
Government securities			
	Aaa	1,133,205	822,150
	Aa1	1,511,082	650,268
	Aa2	1,943,862	1,326,726
	Aa3	1,625,906	1,538,187
	A2	2,544,769	2,211,561
	Baa1	4,656,254	3,771,556
	AAA ^a	793,583	784,369
	AA+ ^b	150,711	148,822
Total government securities		14,359,372	11,253,639

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NOTE 37.1 – CREDIT RISK (continued)

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

<i>(All amounts are expressed in thousands of kuna)</i>	Rating (Moody's)	31/12/2020	31/12/2019
Guaranteed bonds			
	Aaa	985,860	975,132
	AAA ^b	225,518	222,629
Total guaranteed bonds		1,211,378	1,197,761
Securities of international financial institutions			
	Aaa	685,202	298,626
	Aa1	1,103,722	869,868
Total securities of international financial institutions		1,788,924	1,168,494
Bank bonds with government guarantees			
	Aa1	915,275	753,187
Total bank bonds with government guarantees		915,275	753,187
Foreign currency securities at amortised cost		18,274,949	14,373,081
Expected credit losses		(8,651)	(7,687)
Total foreign currency securities at amortised cost		18,266,298	14,365,394
Foreign currency debt securities at fair value through other comprehensive income			
Government securities			
	Aaa	8,602,814	9,117,069
	Aa1	6,165,774	6,110,833
	Aa2	16,585,261	19,134,683
	Aa3	5,995,907	5,854,725
	A1	280,765	—
	A2	893,430	896,384
	AAA ^c	879,590	856,618
	AA+ ^b	627,542	612,663
	AA ^a	542,494	587,098
Total government securities		40,573,577	43,170,073
Guaranteed bonds			
	Aaa	510,810	657,082
Total guaranteed bonds		510,810	657,082
Securities of international financial institutions			
	Aaa	1,284,418	1,556,041
	Aa1	1,436,095	985,134
Total securities of international financial institutions		2,720,513	2,541,175
Bank bonds with government guarantees			
	Aaa	—	232,566
	Aa1	841,938	838,478
Total bank bonds with government guarantees		841,938	1,071,044
Foreign currency debt securities at fair value through other comprehensive income		44,646,838	47,459,374
Total foreign currency securities		88,275,508	99,870,671

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NOTE 37.1 – CREDIT RISK (continued)

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

<i>(All amounts are expressed in thousands of kuna)</i>	Rating (Moody's)	31/12/2020	31/12/2019
Foreign currency reverse repo agreements			
	Aaa	1,222,303	6,637,485
	Aa1	98,239	—
	Aa2	1,635,124	807,767
	Aa3	—	731,316
	Baa1	1,773,392	2,155,779
	AAA ^c	—	187,272
	AAA ^a	—	193,328
	AA+ ^b	—	748,791
Foreign currency reverse repo agreements		4,729,058	11,461,738
<i>Expected credit losses</i>		<i>(225)</i>	<i>(571)</i>
Total foreign currency reverse repo agreements		4,728,833	11,461,167
Foreign currency deposits			
	Aaa	8,592,373	4,383,099
	Aa1	184	96
	Aa2	811,060	2,198,573
	Aa3	1,708	3,139
	A1	1,852	237
	A2	10,926,841	12,990,052
	A3	2,627	32
	No rating ^c	69	60
Total deposits		20,336,714	19,575,288
Deposits with international financial institutions	No rating ^d	3,038,758	2,942,032
Foreign currency deposits		23,375,472	22,517,320
<i>Expected credit losses</i>		<i>(7,109)</i>	<i>(9,006)</i>
Total foreign currency deposits		23,368,363	22,508,314

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NOTE 37.1 – CREDIT RISK (continued)

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

<i>(All amounts are expressed in thousands of kuna)</i>	Rating (Moody's)	31/12/2020	31/12/2019
Other foreign currency financial assets			
	Aaa	5,726,455	4,467,861
	Aa3	–	359
	A1	–	273
	A+ ^e	583	331
	Baa1	–	22
	No rating	1,978	1,578
		<u>5,729,016</u>	<u>4,470,424</u>
Other foreign currency financial assets			
<i>Expected credit losses</i>		<u>(7)</u>	<u>(6)</u>
Total other foreign currency financial assets		<u>5,729,009</u>	<u>4,470,418</u>
Bonds of the Republic of Croatia at amortised cost;	Ba1	19,994,169	–
<i>Expected credit losses</i>		<u>(17,185)</u>	<u>–</u>
Total bonds of the Republic of Croatia at amortised cost;		<u>19,976,984</u>	<u>–</u>
Kuna loans	No rating ^f	4,533,364	1,914,948
<i>Expected credit losses</i>		<u>(1,319)</u>	<u>(540)</u>
Total loans in kuna		<u>4,532,045</u>	<u>1,914,408</u>
Kuna deposits			
Other deposits of domestic commercial banks			
	BBB– ^e	1,111	1,129
	No rating	971	1,817
Kuna deposits		<u>2,082</u>	<u>2,946</u>
<i>Expected credit losses</i>		<u>(5)</u>	<u>(8)</u>
Total kuna deposits		<u>2,077</u>	<u>2,938</u>
Other financial assets in kuna	No rating	32,891	33,243
<i>Expected credit losses</i>		<u>(7,518)</u>	<u>(7,520)</u>
Total other financial assets in kuna		<u>25,373</u>	<u>25,723</u>
TOTAL		<u>146,638,192</u>	<u>140,253,639</u>

^a The ratings according to Fitch Ratings and Standard & Poor's.

^b The ratings according to Standard & Poor's.

^c Demand funds with Clearstream.

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

^e The ratings according to Fitch Ratings.

^f Lending based on collateral, rather than rating.

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NOTE 37.1 – CREDIT RISK (continued)

37.1.2 Geographical concentration of credit risk

(All amounts are expressed in thousands of kuna)

As at 31 December 2020

Instrument	Euro area	Other	Total
Government securities	70,372,571	8,902,268	79,274,839
Guaranteed bonds	1,901,958	–	1,901,958
Securities of international financial institutions	3,447,311	1,062,126	4,509,437
Bank bonds with government guarantees	2,597,925	–	2,597,925
Total foreign currency securities	78,319,765	9,964,394	88,284,159
Foreign currency reverse repo agreements	4,675,648	53,410	4,729,058
Deposits	20,307,047	29,667	20,336,714
Deposits with international financial institutions	–	3,038,758	3,038,758
Total foreign currency deposits	20,307,047	3,068,425	23,375,472
Other foreign currency financial assets	–	5,729,016	5,729,016
Republic of Croatia bonds	–	19,994,169	19,994,169
Loans in the Republic of Croatia	–	4,533,364	4,533,364
Kuna deposits	–	2,082	2,082
Other financial assets in kuna	–	32,891	32,891
TOTAL	103,302,460	43,377,751	146,680,211
31 December 2020:			
		Total expected credit losses	(42,019)
		TOTAL	146,638,192

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

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NOTE 37.1 – CREDIT RISK (continued)

37.1.2 Geographical concentration of credit risk (continued)

(All amounts are expressed in thousands of kuna)

As at 31 December 2019

Instrument	Euro area	Other	Total
Government securities	77,667,745	9,379,212	87,046,957
Guaranteed bonds	5,271,283	–	5,271,283
Securities of international financial institutions	3,910,446	704,010	4,614,456
Bank bonds with government guarantees	2,945,662	–	2,945,662
Total foreign currency securities	89,795,136	10,083,222	99,878,358
Foreign currency reverse repo agreements	6,210,319	5,251,419	11,461,738
Deposits	19,566,492	8,796	19,575,288
Deposits with international financial institutions	–	2,942,032	2,942,032
Total foreign currency deposits	19,566,492	2,950,828	22,517,320
Other foreign currency financial assets	–	4,470,424	4,470,424
Loans in the Republic of Croatia	–	1,914,948	1,914,948
Kuna deposits	–	2,946	2,946
Other financial assets in kuna	–	33,243	33,243
TOTAL	115,571,947	24,707,030	140,278,977
31 December 2019			
		Total expected credit losses	(25,338)
		TOTAL	140,253,639

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

37.1.3 Model for the calculation of expected credit losses

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

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

where:

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

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

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

The optimistic and pessimistic scenarios have a weight of 0.4 and the realistic scenario of 0.2.

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

LGD or loss given default means the ratio of loss on exposure due to the default of the counterparty and the exposure amount at the time of the default. LGD determines the amount of the possible loss, that is, the part of the exposure that the CNB can lose. LGD for non-collateralised financial instruments and LGD for collateralised financial instruments are calculated under different rules.

A predefined value of 45% (i.e. a predefined coefficient of 0.45) is used for all types of kuna and foreign currency non-collateralised financial instruments. The following volatility adjustments are applied in the valuation of financial collateral:

1. volatility adjustments to the market value of financial collateral to take into account price volatility;

2. foreign exchange risk volatility adjustment if collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated;
3. volatility adjustment to maturity mismatch if the maturities of the primary financial instrument and collateral are not matched.

PD is the probability of default of the counterparty during a one-year period.

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

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

PD of the counterparty/issuer for foreign currency financial instruments is calculated using the latest available data on the probability of default from transition matrices (TM) for the sovereigns sector (SOVEREIGNS) and the banking sector (BANKS) of the Fitch rating agency. The counterparty/issuer rating is based on the long-term credit rating of the Fitch rating agency, and if there is no rating, then the ratings of Moody's and Standard&Poor's are used as a secondary source.

The counterparties for kuna financial instruments are domestic credit institutions that are as a rule not assigned a credit rating by a rating agency and PD is calculated by means of internal models for the PD calculation of domestic banks. The PD variable is calculated by means of the multi-criteria optimisation model, which defines 8 initial criteria for all credit institutions in the Republic of Croatia.

The appropriate model is calculated by means of the Analytic Hierarchy Process method. The model applies the following criteria (all indicators are used in practice and consist of a combination of the banking sector's financial indicators and macroeconomic indicators): the bank assets to GDP ratio, total capital ratio, equity to asset ratio, deposit safety, cost to income ratio, net interest margin, rate of change in GDP and unemployment rate.

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

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The year 2020 saw no significant credit rating downgrade resulting from the COVID-19 pandemics, with the result that no significant impact was made on the calculation of expected credit losses of the Croatian National Bank as these are high-quality investments.

37.1.4 Changes in loss allowances for expected credit losses

Changes in loss allowances for expected credit losses 1 January – 31 December 2020

(All amounts are expressed in thousands of kuna)

Financial assets	Loss allowance for expected credit losses as at 1 January 2020	(Decrease) in loss allowance during the period	Increase in loss allowance during the period	Net effect of (decrease) /increase in loss allowances	Loss allowance for expected credit losses as at 31 December 2020
Cash and current accounts with other banks	204	(418)	625	207	411
Deposits with other banks	8,810	(21,566)	19,459	(2,107)	6,703
Loans	540	(668)	1,447	779	1,319
Reverse repo agreements	571	(1,814)	1,468	(346)	225
Foreign currency securities at amortised cost	7,687	(1,245)	2,209	964	8,651
Bonds of the Republic of Croatia at amortised cost	—	(518)	17,703	17,185	17,185
Financial assets at fair value through other comprehensive income – debt instruments	12,363	(3,979)	2,160	(1,819)	10,544
Other financial assets	7,526	(7)	6	(1)	7,525
TOTAL	37,701	(30,215)	45,077	14,862	52,563

Gains from and losses on loss allowances for expected credit losses are translated into kuna based on the exchange rate valid on the transaction date, while loss allowances for expected credit losses reported in foreign currencies are again translated at the date of the Statement of Financial Position using the exchange rate valid on that date. The total increase in loss allowances for expected credit losses in the reporting period is HRK 14,862 thousands. In the Income Statement, line item Impairment losses on financial instruments shows an increase in loss allowances for expected credit losses in the amount of HRK 14,894 thousands (see Note 11). Positive exchange differences in line items loss allowances for expected credit losses amount to HRK 2,845 thousands, negative exchange differences amount to HRK 2,813 thousands and net positive exchange

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differences in the amount of HRK 32 thousands are shown in line item Net unrealised exchange differences (see Note 8).

Changes in loss allowances for expected credit losses 1 January – 31 December 2019

(All amounts are expressed in thousands of kuna)

Financial assets	Loss allowance for expected credit losses as at 1 January 2019	(Decrease) in loss allowance during the period	Increase in loss allowance during the period	Net effect of (decrease)/increase in loss allowances	Loss allowance for expected credit losses as at 31 December 2019
Cash and current accounts with other banks	297	(333)	240	(93)	204
Deposits with other banks	6,750	(29,217)	31,277	2,060	8,810
Loans	575	(663)	628	(35)	540
Reverse repo agreements	1,079	(5,886)	5,378	(508)	571
Foreign currency securities at amortised cost	84	(1,112)	8,715	7,603	7,687
Financial assets at fair value through other comprehensive income – debt instruments	11,712	(2,317)	2,968	651	12,363
Other financial assets	7,564	(42)	4	(38)	7,526
TOTAL	28,061	(39,570)	49,210	9,640	37,701

Gains from and losses on loss allowances for expected credit losses are translated into kuna based on the exchange rate valid on the transaction date, while loss allowances for expected credit losses reported in foreign currencies are again translated at the date of the Statement of Financial Position using the exchange rate valid on that date. The total increase in loss allowances for expected credit losses in the reporting period is HRK 9,640 thousands. In the Income Statement, line item Impairment losses on financial instruments shows an increase in loss allowances for expected credit losses in the amount of HRK 9,519 thousands (see Note 11). Positive exchange differences in line items loss allowances for expected credit losses amount to HRK 1,303 thousands, negative exchange differences amount to HRK 1,424 thousands and net negative exchange differences in the amount of HRK 121 thousands are shown in line item Net unrealised exchange differences (see Note 8).

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37.1.5 Loss allowances for expected credit losses by the stage of credit quality of financial instruments

Loss allowances for expected credit losses by the stage of credit quality of financial instruments in 2020

(All amounts are expressed in thousands of kuna)

Financial assets	Loss allowance for expected credit losses as at 1 January 2020				Loss allowance for expected credit losses as at 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and current accounts with other banks	204	—	—	204	411	—	—	411
Deposits with other banks	8,810	—	—	8,810	6,703	—	—	6,703
Loans	538	—	2	540	1,317	—	2	1,319
Reverse repo agreements	571	—	—	571	225	—	—	225
Foreign currency securities at amortised cost	7,687	—	—	7,687	8,651	—	—	8,651
Bonds of the Republic of Croatia at amortised cost	—	—	—	—	17,185	—	—	17,185
Financial assets at fair value through other comprehensive income – debt instruments	12,363	—	—	12,363	10,544	—	—	10,544
Other financial assets	36	—	7,490	7,526	35	—	7,490	7,525
TOTAL	30,209	—	7,492	37,701	45,071	—	7,492	52,563

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Loss allowances for expected credit losses by the stage of credit quality of financial instruments in 2019

(All amounts are expressed in thousands of kuna)

Financial assets	Loss allowance for expected credit losses as at 1 January 2019				Loss allowance for expected credit losses as at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and current accounts with other banks	297	—	—	297	204	—	—	204
Deposits with other banks	6,750	—	—	6,750	8,810	—	—	8,810
Loans	573	—	2	575	538	—	2	540
Reverse repo agreements	1,079	—	—	1,079	571	—	—	571
Foreign currency securities at amortised cost	84	—	—	84	7,687	—	—	7,687
Financial assets at fair value through other comprehensive income – debt instruments	11,712	—	—	11,712	12,363	—	—	12,363
Other financial assets	74	—	7,490	7,564	36	—	7,490	7,526
TOTAL	20,569	—	7,492	28,061	30,209	—	7,492	37,701

Note: Financial assets in stage 3 are not secured by collateral.

NOTE 37.2 – LIQUIDITY RISK

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

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

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

At 31 December 2020, approximately 74% of net international reserves were liquid (2019: approximately 68% of net international reserves were liquid).

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

(All amounts are expressed in thousands of kuna)

As at 31 December 2020

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total	Book value
Liabilities							
Banknotes and coins in circulation	41,792,678	—	—	—	—	41,792,678	41,792,678
Due to banks and other financial institutions	90,723,404	—	—	—	72	90,723,476	90,723,476
Repo agreements	3,754,341	—	—	—	—	3,754,341	3,756,698
Due to the State and State institutions	17,722,073	—	—	—	—	17,722,073	17,722,069
Due to the International Monetary Fund	—	—	—	—	9,049,025	9,049,025	9,049,025
Other liabilities	349,329	337,152	2,317	2,547	395	691,740	694,437
Provisions for risk and charges	—	—	62,702	—	—	62,702	62,702
Total liabilities	154,341,825	337,152	65,019	2,547	9,049,492	163,796,035	163,801,085

(All amounts are expressed in thousands of kuna)

As at 31 December 2019

	Up to 1 months	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total	Book value
Liabilities							
Banknotes and coins in circulation	38,734,616	—	—	—	—	38,734,616	38,734,616
Due to banks and other financial institutions	74,624,724	—	—	—	72	74,624,796	74,624,796
Repo agreements	5,998,304	—	—	—	—	5,998,304	5,998,829
Due to the State and State institutions	6,712,594	—	—	—	—	6,712,594	6,712,594
Due to the International Monetary Fund	—	—	—	—	9,414,492	9,414,492	9,414,492
Other liabilities	489,032	118,367	2,165	4,669	516	614,749	627,330
Provisions for risk and charges	—	—	59,767	—	—	59,767	59,767
Total liabilities	126,559,270	118,367	61,932	4,669	9,415,080	136,159,318	136,172,424

Note: Repo agreements in the table above include accrued negative interest, presented as financial assets in the statement of financial position. Other liabilities in the table above do not include accrued negative interest on financial assets, presented as other liabilities in the statement of financial position.

NOTE 37.3 – MARKET RISK

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

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

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

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

NOTE 37.3.1 – Foreign exchange risk

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

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

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

Currency VaR for a period of one year with a confidence level of 95% is HRK 4.1 billion.

NOTE 37.3.1 – Foreign exchange risk (continued)

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

2020 Sensitivity analysis

(All amounts are expressed in thousands of kuna)

2020	USD	EUR
Exchange rate appreciation/depreciation	+/-5%	+/-1%
Impact of fluctuations in exchange rates on the Income Statement	907,207/(907,207)	1,128,814/(1,128,814)

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

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

In the case of a 1% decrease in the EUR/HRK exchange rate as at 31 December 2020, the result of the Croatian National Bank reported in the Income Statement for the year would be lower by approximately HRK 1,128,814 thousands, while for a 5% decrease in the USD/HRK exchange rate, the result would be lower by approximately HRK 907,207 thousands.

Calculation methodology

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

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2019 Sensitivity analysis

(All amounts are expressed in thousands of kuna)

2019	USD	EUR
Exchange rate appreciation/depreciation	+/-5%	+/-1%
Impact of fluctuations in exchange rates on the Income Statement	1,004,136/(1,004,136)	1,074,532/(1,074,532)

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NOTE 37.3.1 – Foreign exchange risk (continued)

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

(All amounts are expressed in thousands of kuna)

As at 31 December 2020

	EUR	HRK linked to EUR	USD	XDR	HRK linked to XDR	Other foreign currencies	HRK	Total
Assets								
Cash and current accounts with other banks	33,755,577	–	3,821	–	–	26,427	380	33,766,205
Deposits with other banks	10,922,060	2,077	1,148,054	–	–	–	–	12,072,191
Financial assets at fair value through profit or loss	20,730,767	–	5,860,241	–	–	–	9,411	26,600,419
Loans	–	–	–	–	–	–	4,532,045	4,532,045
Reverse repo agreements	4,578,000	–	151,644	–	–	–	–	4,729,644
Debt securities at amortised cost	18,266,297	3,318,715	–	–	–	–	16,658,270	38,243,282
Balances with the International Monetary Fund	–	–	–	2,701,058	6,363,088	–	–	9,064,146
Debt securities at fair value through other comprehensive income	33,185,104	–	11,461,734	–	–	–	–	44,646,838
Investments accounted for using the equity method	–	–	–	–	–	–	51,076	51,076
Other assets	5,732,109	–	–	–	–	20	615,472	6,347,601
Property, plant, equipment and intangible assets	–	–	–	–	–	–	610,168	610,168
Total assets	127,149,914	3,320,792	18,625,494	2,701,058	6,363,088	26,447	22,476,822	180,663,615
Liabilities								
Banknotes and coins in circulation	–	–	–	–	–	–	41,792,678	41,792,678
Due to banks and other financial institutions	5,726,455	–	–	–	–	–	84,997,021	90,723,476
Repo agreements	3,756,698	–	–	–	–	–	–	3,756,698
Due to the State and State institutions	2,870,938	–	85,941	–	–	25,056	14,740,134	17,722,069
Due to the International Monetary Fund	–	–	–	2,688,716	6,360,309	–	–	9,049,025
Other liabilities	10,770	–	19	7,601	–	6	676,041	694,437
Provisions for risk and charges	–	–	–	–	–	–	62,702	62,702
Total liabilities	12,364,861	–	85,960	2,696,317	6,360,309	25,062	142,268,576	163,801,085
Net position	114,785,053	3,320,792	18,539,534	4,741	2,779	1,385	(119,791,754)	16,862,530

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NOTE 37.3.1 – Foreign exchange risk (continued)

37.3.1.2 CNB exposure to foreign exchange risk – analysis of assets and liabilities by currency (continued)

(All amounts are expressed in thousands of kuna)

As at 31 December 2019

	EUR	HRK linked to EUR	USD	XDR	HRK linked to XDR	Other foreign currencies	HRK	Total
Assets								
Cash and current accounts with other banks	7,341,123	–	4,283	–	–	5,344	364	7,351,114
Deposits with other banks	14,772,299	2,938	546,663	–	–	–	–	15,321,900
Financial assets at fair value through profit or loss	32,265,349	–	7,132,248	–	–	–	7,525	39,405,122
Loans	–	–	–	–	–	–	1,914,408	1,914,408
Reverse repo agreements	9,274,570	–	2,192,600	–	–	–	–	11,467,170
Debt securities at amortised cost	14,365,394	–	–	–	–	–	–	14,365,394
Balances with the International Monetary Fund	–	–	–	2,808,611	6,619,913	–	–	9,428,524
Debt securities at fair value through other comprehensive income	35,297,696	–	12,141,678	–	–	–	–	47,439,374
Investments accounted for using the equity method	–	–	–	–	–	–	25,736	25,736
Other assets	4,471,050	–	9	–	–	1	595,305	5,066,565
Property, plant, equipment and intangible assets	–	–	–	–	–	–	620,824	620,824
Total assets	117,787,481	2,938	22,017,481	2,808,611	6,619,913	5,345	3,164,362	152,406,131
Liabilities								
Banknotes and coins in circulation	–	–	–	–	–	–	38,734,616	38,734,616
Due to banks and other financial institutions	4,467,861	–	–	–	–	–	70,156,935	74,624,796
Repo agreements	4,065,227	–	1,933,602	–	–	–	–	5,998,829
Due to the State and State institutions	59,153	–	6,336	–	–	4,514	6,642,391	6,712,394
Due to the International Monetary Fund	–	–	–	2,797,255	6,617,237	–	–	9,414,492
Other liabilities	17,259	–	15	6,422	–	15	603,619	627,330
Provisions for risk and charges	–	–	–	–	–	–	59,767	59,767
Total liabilities	8,609,500	–	1,939,953	2,803,677	6,617,237	4,529	116,197,528	136,172,424
Net position	109,177,981	2,938	20,077,528	4,934	2,676	816	(113,033,166)	16,233,707

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

NOTE 37.3.2 – Interest rate risk

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

Net international reserves, which are managed in accordance with the CNB's own guidelines, are invested in trading and investment portfolios. An investment portfolio may be formed as a portfolio measured at fair value through other comprehensive income and as a portfolio measured at amortised cost, with both of them serving as a long-term source of stable income and being of long average maturity.

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

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

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

NOTE 37.3.2 – Interest rate risk (continued)

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

2020 Sensitivity analysis

(All amounts are expressed in thousands of kuna)

2020	USD	EUR
Yield curve increase/decrease	+/-1 b. p.	+/-1 b. p.
Effect of a change in the level of the yield curve on the financial result	(390)/390	(2,227)/2,227

Should as at 31 December 2020 the entire USD yield curve increase by 1 basis point (0.01%), the Croatian National Bank Income Statement result would be lower by approximately HRK 390 thousands, while in the case of the EUR yield curve increasing by 1 basis point, the result would be lower by approximately HRK 2,227 thousands.

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

Calculation methodology

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

2019 Sensitivity analysis

(All amounts are expressed in thousands of kuna)

2019	USD	EUR
Yield curve increase/decrease	+/-1 b. p.	+/-1 b. p.
Effect of a change in the level of the yield curve on the financial result	(529)/529	(3,300)/3,300

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NOTE 37.3.2 – Interest rate risk (continued)

37.3.2.2 Interest rate risk analysis

(All amounts are expressed in thousands of kuna)

As at 31 December 2020

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing	Total	Average EIR as at 31/12
Assets								
Cash and current accounts with other banks	8,599,488	—	—	—	—	25,166,717	33,766,205	-0.64
Deposits with other banks	10,584,951	1,691,551	—	—	—	(4,311)	12,072,191	-0.43
Financial assets at fair value through profit or loss	25,524,318	—	—	—	—	1,276,101	26,600,419	-0.53
Loans	—	—	—	4,517,029	—	15,016	4,532,045	0.50
Reverse repo agreements	4,631,650	98,225	—	—	—	(211)	4,729,644	-0.72
Debt securities at amortised cost	—	—	1,125,124	8,588,871	28,328,095	205,192	38,243,282	0.29
Balances with the International Monetary Fund	2,696,453	—	—	—	—	6,567,693	9,064,146	0.08
Debt securities at fair value through other comprehensive income	44,419,450	—	—	—	—	227,588	44,646,858	1.00
Investments accounted for using the equity method	—	—	—	—	—	51,076	51,076	—
Other assets	—	—	—	—	—	6,547,601	6,547,601	—
Property, plant, equipment and intangible assets	—	—	—	—	—	610,168	610,168	—
Total assets	96,056,290	1,789,776	1,125,124	13,105,900	28,328,095	40,260,430	180,663,615	—
Liabilities								
Banknotes and coins in circulation	—	—	—	—	—	41,792,678	41,792,678	—
Due to banks and other financial institutions	5,726,455	—	—	—	—	84,997,021	90,723,476	—
Repo agreements	5,756,698	—	—	—	—	—	5,756,698	-0.85
Due to the State and State institutions	10,501,815	—	—	—	—	7,220,254	17,722,069	0.1
Due to the International Monetary Fund	2,688,716	—	—	—	—	6,360,309	9,049,025	0.08
Other liabilities	—	—	2,317	2,547	—	689,575	694,437	3.00
Provisions for risk and charges	—	—	—	—	—	62,702	62,702	—
Total liabilities	22,673,684	—	2,317	2,547	—	141,122,537	163,801,085	—
Net position	73,382,606	1,789,776	1,120,807	13,103,353	28,328,095	(100,862,107)	16,862,530	—

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NOTE 37.3.2 – Interest rate risk (continued)

37.3.2.2 Interest rate risk analysis (continued)

(All amounts are expressed in thousands of kuna)

As at 31 December 2019

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing	Total	Average EIR as at 31/12
Assets								
Cash and current accounts with other banks	4,387,522	—	—	—	—	2,963,592	7,351,114	-0.62
Deposits with other banks	12,673,261	2,652,995	—	—	—	(4,356)	15,321,900	-0.42
Financial assets at fair value through profit or loss	37,972,622	—	—	—	—	1,432,500	39,405,122	-0.10
Loans	—	62,000	27,000	1,792,000	35	33,375	1,914,408	1.22
Reverse repo agreements	11,466,449	—	—	—	—	721	11,467,170	-0.09
Debt securities at amortised cost	—	—	—	2,322,360	11,985,999	57,035	14,365,394	0.06
Balances with the International Monetary Fund	2,805,820	—	—	—	—	6,624,704	9,428,524	0.74
Debt securities at fair value through other comprehensive income	47,174,201	—	—	—	—	265,173	47,439,374	1.01
Investments accounted for using the equity method	—	—	—	—	—	25,736	25,736	—
Other assets	—	—	—	—	—	5,066,565	5,066,565	—
Property, plant, equipment and intangible assets	—	—	—	—	—	620,824	620,824	—
Total assets	116,477,875	2,714,995	27,000	4,114,360	11,986,034	17,085,867	152,406,131	—
Liabilities								
Banknotes and coins in circulation	—	—	—	—	—	38,734,616	38,734,616	—
Due to banks and other financial institutions	4,467,861	—	—	—	—	70,156,935	74,624,796	—
Repo agreements	5,997,962	—	—	—	—	867	5,998,829	0.14
Due to the State and State institutions	4,897,969	—	—	—	—	1,814,625	6,712,594	0.30
Due to the International Monetary Fund	2,797,255	—	—	—	—	6,617,237	9,414,492	0.74
Other liabilities	—	—	2,165	4,669	—	620,496	627,330	3.00
Provisions for risk and charges	—	—	—	—	—	59,767	59,767	—
Total liabilities	18,161,047	—	2,165	4,669	—	118,004,543	136,172,424	—
Net position	98,316,828	2,714,995	24,835	4,109,691	11,986,034	(100,918,676)	16,233,707	—

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

Fixed interest rate is charged on presented interest bearing amounts, except on the part of the position Cash and current accounts with other banks, amounting to HRK 8,599,488 thousands (31 December 2019: HRK 4,387,522 thousands), and the part of the position Financial assets at fair value through profit or loss (floaters) in the amount of HRK 245,838 thousands (31 December 2019: HRK 320,221 thousands), as well as on the part of the position Due to the State and State institutions, amounting to HRK 10,501,815 thousands (31 December 2019: HRK 4,897,969 thousands), on which variable floating rate is charged.

NOTE 37.3.3 – Other price risks

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

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

2020 Sensitivity analysis – assets under management with international financial institutions

(All amounts are expressed in thousands of kuna)

2020	
Financial assets price exposed to price risk increase/decrease	+/-1%
Effect of change in the level of price on the Income Statement	12,286/(12,286)

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

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

Should the prices of a financial instrument increase by 1% compared to the prices recorded on 31 December 2020, the Croatian National Bank Income Statement result would be higher by approximately HRK 12,286 thousands, while the fall in prices by 1% would result in the Income Statement being lower by approximately HRK 12,286 thousands.

2020 Sensitivity analysis – precious metals

(All amounts are expressed in thousands of kuna)

2020	
Financial assets price exposed to price risk increase/decrease	+/-5%
Effect of change in the level of price on the Income Statement	471/(471)

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

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

Should the prices of precious metals increase by 5% compared to the prices recorded on 31 December 2020, the Croatian National Bank Income Statement result would be higher by approximately HRK 471 thousands, while the fall in prices by 5% would result in the Income Statement result being lower by approximately HRK 471 thousands.

Calculation methodology

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

2019 Sensitivity analysis – assets under management with international financial institutions

(All amounts are expressed in thousands of kuna)

2019

Financial assets price exposed to price risk increase/decrease	+/-1%
Effect of change in the level of price on the Income Statement	13,317/(13,317)

2019 Sensitivity analysis – precious metals

(All amounts are expressed in thousands of kuna)

2019

Financial assets price exposed to price risk increase/decrease	+/-5%
Effect of change in the level of price on the Income Statement	376/(376)

NOTE 38 – RELATED PARTIES

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

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

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

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

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

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

<i>(All amounts are expressed in thousands of kuna)</i>		2020		2019	
	<i>State</i>	<i>State entities</i>	<i>State</i>	<i>State entities</i>	
ASSETS					
Debt securities at amortised cost	19,994,169	–	–	–	
Other assets	1,711	231	1,690	424	
TOTAL	19,995,880	231	1,690	424	
LIABILITIES					
Deposits	13,598,929	4,123,140	5,089,638	1,621,585	
Accrued interest and other liabilities	212,772	–	118,780	–	
TOTAL	13,811,701	4,123,140	5,208,418	1,621,585	

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<i>(All amounts are expressed in thousands of kuna)</i>				
	2020		2019	
	<i>State</i>	<i>State entities</i>	<i>State</i>	<i>State entities</i>
REVENUES				
Interest income calculated using the effective interest method	100,731	–	–	–
Other interest income	6,386	–	732	–
TOTAL	107,117	–	732	–
EXPENDITURE				
Interest expenses	9,166	–	59,776	–
TOTAL	9,166	–	59,776	–

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

b) Subsidiary (Associate until 30 June 2020)

The investment of the Croatian National Bank in the Croatian Monetary Institute represents an investment in a subsidiary (an associate until 30 June 2020) and the share ownership of the Croatian National Bank in the Croatian Monetary Institute capital is 100.00% (2019: 42.6%). Detailed disclosures on the investment in the Croatian Monetary Institute are presented in Note 21.

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

<i>(All amounts are expressed in thousands of kuna)</i>		
	2020	2019
ASSETS		
Investments accounted for using the equity method	51,076	25,736
Other assets	37,123	52,447
TOTAL	88,199	78,183
LIABILITIES		
Other liabilities	84	–
TOTAL	84	–
REVENUES		
Gains in the alignment of investments in the CMI	10,103	2,479
Other revenues	32	11
TOTAL	10,135	2,490
EXPENDITURE		
Losses from the alignment of investments in the CMI	34	360
Minting of kuna and lipa coins*	76,075	79,211
Other	108	541
TOTAL	76,217	80,112

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* Total coins production cost invoiced by the Croatian Monetary Institute in the reporting period. The presented costs differ from costs recognised in profit or loss in the reporting period, since the cost of minting coins are recognised in the Income Statement in accordance with the cost deferral policy (refer to Note 10).

c) Key management of the Croatian National Bank

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

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

Total short-term compensations to the key management of the Croatian National Bank amount to HRK 9,092 thousands, of which the amount of HRK 1,275 thousands relates to contributions for pension insurance (2019: HRK 9,201 thousands, of which HRK 1,311 thousands was related to contributions for pension insurance).

Provisions for employee benefits of the key management of the Croatian National Bank amount to HRK 504 thousands (2019: HRK 475 thousands).

NOTE 39 – EVENTS AFTER THE REPORTING PERIOD

Since 1 January 2021 and pursuant to Article 35 of the Act on Amendments to the Act on the Croatian National Bank (Official Gazette 47/2020), the financial statements of the Croatian National Bank have been prepared in accordance with Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), with all amendments (hereinafter: ECB Guideline). The Croatian National Bank reports on transactions that are not regulated by the ECB guideline applying, providing that there is no contrary decision of the Croatian National Bank Council, valuation principles in accordance with the International Financial Reporting Standards as adopted in the European Union that are material for the operations and reports of the Croatian National Bank.

The most important differences from the previous accounting framework (the International Financial Reporting Standards in force in the EU) concern the method of recognition of realised and unrealised foreign exchange gains and losses and gains and losses from changes in the prices of financial instruments. In

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accordance with the ECB Guideline and the asymmetric valuation approach, unrealised foreign exchange gains and gains from price changes are not recognised in the Income Statement but are recorded in revaluation accounts. Unrealised foreign exchange losses and losses from price changes are taken at year end to the Income Statement if they exceed previous revaluation gains registered in the corresponding revaluation account. The average cost of the foreign currency is calculated for each currency and the comparison of the transaction exchange rate and the average cost of the foreign currency provides for the calculation of realised foreign exchange gains/losses, while the comparison of the average cost of the foreign currency and the mid-market rate of the currency (CNB middle exchange rate) provides for the calculation of unrealised foreign exchange gains/losses. The exchange rate revaluation is carried out separately for each individual currency because positive revaluation effects from one currency must not be offset against the negative effects of revaluation from another currency.

The accounting policy for the recognition of the costs of production of kuna banknotes and coins is also changed in the manner that these costs are no longer deferred but are recognised in the Income Statement when they are invoiced or occur in any other way.

In line with the new accounting policies, the financial statements comprise the Balance Sheet, Income Statement and Notes to the Financial Statements. As of the financial year 2021, the Croatian National Bank no longer prepares the Statement of Cash Flows and the Statement of Changes in Equity. The financial statements are prepared annually as the ECB Guideline neither provides for the obligation to prepare semi-annual statements nor lays down the rules for their preparation.

After 31 December 2020 there were no other significant events that would have an impact on the financial statements of the Croatian National Bank.