

CROATIAN NATIONAL BANK

**CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE
PERIOD ENDED 30 JUNE 2020**

**in accordance with the requirements of
International Accounting Standard 34**

This version of the condensed interim 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 versions take precedence over translation.

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Independent Auditors' report on review of interim financial information to the Council of the Croatian National Bank

Introduction

We have reviewed the accompanying condensed statement of financial position of the Croatian National Bank as at 30 June 2020, the condensed income statement and condensed statements of comprehensive income, changes in equity and cash flows for six-month period then ended, and notes to the interim financial information ("the condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, *'Interim Financial Reporting'*. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34, *'Interim Financial Reporting'*.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
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31 July 2020


Goran Horvat
President of the Management Board, Croatian
Certified Auditor

INCOME STATEMENT

<i>(All amounts are expressed in thousands of kuna)</i>	Notes	1/1 – 30/6/2020	1/1 – 30/6/2019
Interest income calculated using the effective interest method	2	291,255	316,838
Other interest income	2	53,096	86,549
Interest expenses	3	(54,800)	(145,362)
		<hr/>	<hr/>
Net interest income/(expense)		289,551	258,025
Fee and commission income		27,169	49,127
Fee and commission expenses		(10,976)	(10,682)
		<hr/>	<hr/>
Net fee and commission income/(expense)		16,193	38,445
Net investment result – equity method		108	1,099
Net result from financial assets at fair value through profit or loss	4	30,300	37,961
Net result from debt securities at fair value through other comprehensive income		113,699	75,222
Net exchange differences	5	1,952,129	(237,294)
Other income		2,927	3,835
		<hr/>	<hr/>
Operating profit/(loss)		2,404,907	177,293
Operating expenses	6	(204,084)	(185,729)
Impairment	7	(9,718)	(776)
Decrease/(increase) in provisions	8	8,796	7,669
		<hr/>	<hr/>
Profit or loss	25	2,199,901	(1,543)

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STATEMENT OF COMPREHENSIVE INCOME

<i>(All amounts are expressed in thousands of kuna)</i>	Notes	1/1 – 30/6/2020	1/1 – 30/6/2019
Profit or loss		2,199,901	(1,543)
Other comprehensive income		630,220	1,305,885
<i>Other comprehensive income items that are or will be reclassified to profit or loss in subsequent periods</i>		<i>630,220</i>	<i>1,305,885</i>
Debt securities at fair value through other comprehensive income:		630,220	1,305,885
Gains/(losses) from remeasurement		745,606	1,381,564
(Gains)/losses from trading transferred to profit or loss		(113,699)	(75,222)
Net changes in loss allowances for expected credit losses		(1,687)	(457)
Total comprehensive income		2,830,121	1,304,342

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STATEMENT OF FINANCIAL POSITION

<i>(All amounts are expressed in thousands of kuna)</i>	Notes	30/6/2020	31/12/2019
Assets			
Cash and current accounts with other banks	9	21,631,752	7,351,114
Deposits with other banks	10	9,613,344	15,321,900
Financial assets at fair value through profit or loss	11	25,226,649	39,405,122
Loans	12	4,285,554	1,914,408
Reverse repo agreements	13	7,316,352	11,467,170
Debt securities at amortised cost	14	34,214,991	14,365,394
Balances with the International Monetary Fund	15	9,430,179	9,428,524
Debt securities at fair value through other comprehensive income	16	45,860,912	47,439,374
Equity securities at fair value through other comprehensive income – irrevocable election	17	61,948	59,165
Investments accounted for using the equity method	18	25,844	25,736
Other assets	19	2,513,087	5,007,400
Property, plant, equipment and intangible assets		604,284	620,824
TOTAL ASSETS		160,784,896	152,406,131
Liabilities			
Banknotes and coins in circulation	20	42,309,200	38,734,616
Due to banks and other financial institutions	21	71,662,752	74,624,796
Repo agreements		793,253	5,998,829
Due to the State and State institutions		17,097,314	6,712,594
Due to the International Monetary Fund	22	9,414,397	9,414,492
Other liabilities		444,152	687,097
Total liabilities		141,721,068	136,172,424
Equity			
Initial capital	23	2,500,000	2,500,000
Reserves	23	14,363,927	13,733,707
Profit or loss for the period		2,199,901	–
Total equity		19,063,828	16,233,707
TOTAL EQUITY AND LIABILITIES		160,784,896	152,406,131

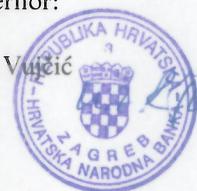
The condensed interim financial statements set out on pages 3 to 32 were approved on 31 July 2020 by:

Director of the Accounting Department:

Mario Varović

Governor:

Boris Vujčić



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STATEMENT OF CHANGES IN EQUITY

<i>(All amounts are expressed in thousands of kuna)</i>	Initial capital	General reserves	Fair value reserves for debt securities at fair value through other comprehensive income	Revaluation reserves on property	Total reserves	Profit or loss for the period	Total equity
As at 1 January 2019	2,500,000	10,820,897	821,893	328,647	11,971,437	–	14,471,437
Profit or loss	–	–	–	–	–	(1,543)	(1,543)
Other comprehensive income	–	–	1,305,885	–	1,305,885	–	1,305,885
Total comprehensive income	–	–	1,305,885	–	1,305,885	(1,543)	1,304,342
As at 30 June 2019	2,500,000	10,820,897	2,127,778	328,647	13,277,322	(1,543)	15,775,779
As at 1 January 2020	2,500,000	11,635,860	1,751,126	346,721	13,733,707	–	16,233,707
Profit or loss	–	–	–	–	–	2,199,901	2,199,901
Other comprehensive income	–	–	630,220	–	630,220	–	630,220
Total comprehensive income	–	–	630,220	–	630,220	2,199,901	2,830,121
As at 30 June 2020	2,500,000	11,635,860	2,381,346	346,721	14,363,927	2,199,901	19,063,828

The notes on pages 8 to 32 form an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS

(All amounts are expressed in thousands of kuna)

	1/1 – 30/6/2020	1/1 – 30/6/2019
Cash flows from operating activities		
Interest received	567,750	498,406
Interest paid	(76,145)	(153,055)
Fees and commissions received	3,588	48,863
Fees and commissions paid	(9,220)	(10,463)
Other receipts	67,886	56,943
Payment of material, administrative and other expenses, services and staff costs	(180,454)	(154,616)
Inflows/(outflows) in deposits and reverse repo agreements with other banks	10,309,434	(17,834,131)
Inflows/(outflows) in loans	(2,390,997)	3
Sale/(purchase) of held-for-trading securities	14,753,940	(4,604,642)
Sale/(purchase) of foreign currency debt securities at amortised cost	(3,783,157)	(1,114,674)
Sale/(purchase) of kuna-denominated bonds of the Republic of Croatia at amortised cost	(15,833,360)	–
Sale/(purchase) of securities held at fair value through other comprehensive income	2,790,471	1,103,440
Inflows/(outflows) in other assets	4,189	(108,804)
Inflows/(outflows) in amounts due to the International Monetary Fund	(44)	(50)
Issuance/(withdrawal) of currency in circulation	3,574,583	4,703,175
Inflows/(outflows) in repo agreements and other amounts due to banks and other financial institutions	(5,936,571)	3,047,700
Inflows/(outflows) in amounts due to the State and State institutions	9,621,381	8,517,243
Inflows/(outflows) in other liabilities	652,781	293,380
Net cash from operating activities	14,136,055	(5,711,282)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(22,926)	(12,156)
Inflows/(outflows) in paid-up capital to the ECB	(2,783)	1,053
Net cash from investing activities	(25,709)	(11,103)
Cash flows from financing activities		
Payments of allocated profits to the State Budget	(117,409)	–
Inflows/(outflows) in lease liabilities	(1,223)	–
Net cash from financing activities	(118,632)	–
Effect of changes in exchange rates – positive/(negative) exchange differences on cash and cash equivalents	290,539	(18,505)
Net increase/(decrease) in cash and cash equivalents	14,282,253	(5,740,890)
Cash and cash equivalents at beginning of period	10,155,138	12,278,317
Cash and cash equivalents at end of period	24,437,391	6,537,427

SELECTED NOTES TO FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION AND ACCOUNTING STANDARDS

1.1 Reporting entity

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 Act on Amendments to the Act on the Croatian National Bank, published in the Official Gazette 47 of 17 April 2020, amends the provisions of the Act on the Croatian National Bank in order to provide for establishing close cooperation between the European Central Bank and the Croatian National Bank and entry to the Single Resolution Mechanism, and to further align the provisions entering into force on the date of introduction of the euro as the official currency of the Republic of Croatia. The changes introduced in the area of monetary policy aim to enable the use of an instrument that has not been in use so far due to limitations in the domestic legislation. The instrument in question refers to negative interest rates, which have in the last few years become an important monetary policy instrument for central banks to manage liquidity and stimulate the money market. As regards the preparation of the financial statements of the Croatian National Bank, this Act requires that the Croatian National Bank applies 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 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 objective of the Croatian National Bank is maintaining price stability.

Pursuant to the Act on the Croatian National Bank, the condensed interim financial statements are adopted by the Council of the Croatian National Bank, which consists of eight members including Governor, Deputy Governor and six Vicegovernors 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

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- M. Sc. Slavko Tešija, Vicegovernor
- D. Sc. Roman Šubić, Vicegovernor
- M. Sc. Martina Drvar, Vicegovernor.

1.2 Basis of accounting

The condensed interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34, Interim Financial Reporting, as determined by the European Commission and published in the Official Journal of the European Union. The condensed interim financial statements do not include all the information required for a complete set of financial statements prepared pursuant to International Financial Reporting Standards as determined by the European Commission and published in the Official Journal of the European Union.

An integral part of these condensed interim financial statements are selected explanatory notes which are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance of the Croatian National Bank since the last annual financial statements for 2019. The preparation of the condensed interim financial statements of the Croatian National Bank in accordance with the International Accounting Standard 34 is regulated by the Act on the Croatian National Bank and the Accounting Act.

1.3 Application of amendments to standards and accounting policies

The condensed interim financial statements are prepared in accordance with the same accounting policies and standards for recognising assets and liabilities, income and expense as the last annual financial statements of the Croatian National Bank.

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)

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<i>Official Journal of the EU</i>	<i>Standard</i>
OJ L 12, 16.1.2020	Interest Rate Benchmark Reform: 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)

These standards and interpretation were applied in the compilation of the condensed interim financial statements for the period ended 30 June 2020 and did not have a significant impact on the financial statements of the Croatian National Bank.

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

During the reporting period there were no standards, amendments to standards and their interpretations with mandatory application in the EU that were not applied by the Croatian National Bank in the preparation of the financial statements for 2020.

1.3.2 Standards which are not endorsed in the EU

The International Accounting Standards Board (IASB) issued additional standards, which have not yet been endorsed in the European Union. It is estimated that their application will not have a significant impact on the preparation of the financial statements of the Croatian National Bank.

1.4 Use of judgements and estimates

In preparing the financial statements, 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 significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were not the same as those used in the preparation of the annual financial statements for 2019 as the impact of the COVID-19 pandemic on the financial statements of the Croatian National Bank had to be taken into account during the preparation of the respective financial 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 are the impact of the COVID-19 pandemic on the calculation of expected credit losses and reasonable and supportable information that is available without undue costs or effort, which may influence the credit risk of a financial instrument. Financial instruments with an investment credit rating are considered low credit risk financial instruments and, as 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 measurement

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 which 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.

If the inputs used to measure the fair value of an asset or liability can be classified in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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.

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 favourable financing conditions for entrepreneurs and households. It has maintained the stability of the exchange rate by foreign exchange interventions.
- It has adjusted its approach to supervision of credit institutions in order for banks to facilitate the ensuring of liquidity and thus supporting the maintenance of economic activity and safeguarding 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 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 Seasonality and cyclicity of operations

The operations of the Croatian National Bank during the reporting period did not include any seasonal or cyclic activities. All the operating activities were performed according to the substance, the accrual basis of accounting and under the going-concern principle.

1.7 Functional and presentation currency

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

1.8 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 are recognised in profit or loss in the period in which they arise. Translation is performed using the midpoint 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 Croatian National Bank middle exchange rates (of major foreign currencies) at 30 June 2020 were as follows:

1 USD = HRK 6.707621 (31/12/2019: HRK 6.649911; 30/6/2019: HRK 6.495329)

1 EUR = HRK 7.558818 (31/12/2019: HRK 7.442580; 30/6/2019: HRK 7.393633)

1 XDR = HRK 9.227674 (31/12/2019: HRK 9.227696; 30/6/2019: HRK 9.033487).

1.9 Property, plant, equipment and intangible assets

Given the review of useful lives of property, plant, equipment and intangible assets as a result of greater experience and new information, in 2020 there was a change in an accounting estimate of the useful life of furniture and equipment as presented in the following table.

The 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 using new estimates of useful lives of furniture and equipment is that the depreciation of property, plant, equipment and intangible assets in the reporting period is HRK 145 thousands higher than depreciation that would have been recognised if there was no change in the estimated useful lives.

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NOTE 2 – INTEREST INCOME

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Foreign currency deposit	2,860	7,715
Loans to domestic banks	9,453	12,523
Foreign currency reverse repo agreements	10,486	62,258
Foreign currency securities at amortised cost	5,582	1,673
Kuna-denominated bonds of the Republic of Croatia at amortised cost	24,642	–
Debt securities at fair value through other comprehensive income	227,327	201,398
Foreign currency repo agreements (negative interest)	10,639	30,874
Other	266	397
<i>Total interest income calculated using the effective interest method</i>	<u>291,255</u>	<u>316,838</u>
Held-for-trading securities	<u>53,096</u>	<u>86,549</u>
<i>Total other interest income</i>	<u>53,096</u>	<u>86,549</u>
Total interest income	<u>344,351</u>	<u>403,387</u>

NOTE 3 – INTEREST EXPENSES

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Foreign currency repo agreements	8,765	54,523
State Budget deposits	3,220	1,103
Foreign currency deposits (negative interest)	17,244	20,620
Foreign currency reverse repo agreements (negative interest)	25,201	64,504
Other	<u>370</u>	<u>4,612</u>
	<u>54,800</u>	<u>145,362</u>

**NOTE 4 – NET RESULT FROM FINANCIAL ASSETS AT FAIR VALUE
THROUGH PROFIT OR LOSS**

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Net securities trading result, including net changes in fair value of held-for-trading securities	8,437	14,904
Net result from assets under management with international financial institutions	21,082	22,772
Net result from revaluation of precious metals	<u>781</u>	<u>285</u>
	<u>30,300</u>	<u>37,961</u>

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NOTE 5 – NET EXCHANGE DIFFERENCES

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Net unrealised exchange differences	1,931,235	(262,336)
Net realised exchange differences	<u>20,894</u>	<u>25,042</u>
	<u>1,952,129</u>	<u>(237,294)</u>

Increase in the EUR/HRK exchange rate (1.56%) and increase in the USD/HRK exchange rate (0.87%) in the first half of 2020 had the biggest effect on the net exchange differences.

NOTE 6 – OPERATING EXPENSES

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Staff costs (Note 6.a)	99,424	90,197
Materials, services and administrative expenses	49,270	45,338
Costs of production of banknotes and coins of Croatian kuna	34,076	32,965
Depreciation and amortisation costs	<u>21,314</u>	<u>17,229</u>
	<u>204,084</u>	<u>185,729</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 946 thousands as at 30 June 2020 (30 June 2019: HRK 655 thousands).

Depreciation costs for the right-of-use asset amount to HRK 1,415 thousands as at 30 June 2020 (30 June 2019: HRK 73 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.

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a) Staff costs

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Net salaries	51,005	44,723
Contributions from and contributions on salaries	26,817	23,932
Taxes and surtaxes	11,212	9,629
Other employee related expenses	<u>10,390</u>	<u>11,913</u>
	<u>99,424</u>	<u>90,197</u>

The average number of employees during the 2020 reporting period was 686 (2019: 665). Total staff costs as at 30 June 2020 amount to HRK 99,424 thousands, of which the amount of HRK 16,187 thousands relates to contributions for pension insurance (30 June 2019: HRK 90,197 thousands, of which HRK 14,910 thousands was related to contributions for pension insurance).

NOTE 7 – IMPAIRMENT

Expected credit losses

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
New expected credit losses according to IFRS 9	25,086	17,217
Reversal of expected credit losses according to IFRS 9	<u>(15,368)</u>	<u>(16,441)</u>
	<u>9,718</u>	<u>776</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 27.

NOTE 8 – (DECREASE)/INCREASE IN PROVISIONS

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Provisions for risks and charges		
Released provisions	<u>(8,796)</u>	<u>(7,669)</u>
	<u>(8,796)</u>	<u>(7,669)</u>

NOTE 9 – CASH AND CURRENT ACCOUNTS WITH OTHER BANKS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Cash on hand	2,219	970
Foreign currency cash in the CNB treasury vault	17,679,328	2,962,825
Current accounts with foreign banks	3,907,413	4,327,949
CNB account in TARGET2 system	42,975	59,574
	21,631,935	7,351,318
Loss allowance for expected credit losses	(183)	(204)
	21,631,752	7,351,114

The increase in foreign currency cash in the CNB treasury vault by HRK 14,716,503 thousands as at 30 June 2020, compared to 31 December 2019, is the result of a strategic decision to increase cash holdings. This strategic decision contributed, among other things, to the meeting of the needs of banks for euro cash in a situation of extremely difficult supply in March and April 2020.

NOTE 10 – DEPOSITS WITH OTHER BANKS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Deposits with foreign central banks	9,482,240	15,194,343
Deposits with international financial institutions	134,172	133,421
Deposits with domestic commercial banks	2,405	2,946
	9,618,817	15,330,710
Loss allowance for expected credit losses	(5,473)	(8,810)
	9,613,344	15,321,900

NOTE 11 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Held-for-trading securities (Note 11.a)	23,854,339	38,065,903
Assets under management with international financial institutions (Note 11.b)	1,364,002	1,331,694
Precious metals	8,308	7,525
	25,226,649	39,405,122

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a) Held-for-trading securities

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
EUR-denominated securities	18,516,024	32,265,349
USD-denominated securities	<u>5,338,315</u>	<u>5,800,554</u>
	<u>23,854,339</u>	<u>38,065,903</u>

Held-for-trading securities include accrued interest in the amount of HRK 34,221 thousands at 30 June 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>	30/6/2020	31/12/2019
USD-denominated funds entrusted to the management of international financial institutions	<u>1,364,002</u>	<u>1,331,694</u>
	<u>1,364,002</u>	<u>1,331,694</u>

NOTE 12 – LOANS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Loans to domestic banks	4,286,717	1,914,914
Other loans	<u>32</u>	<u>34</u>
	<u>4,286,749</u>	<u>1,914,948</u>
Loss allowance for expected credit losses	<u>(1,195)</u>	<u>(540)</u>
	<u>4,285,554</u>	<u>1,914,408</u>

NOTE 13 – REVERSE REPO AGREEMENTS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Foreign currency reverse repo agreements	<u>7,316,630</u>	<u>11,467,741</u>
	<u>7,316,630</u>	<u>11,467,741</u>
Loss allowance for expected credit losses	<u>(278)</u>	<u>(571)</u>
	<u>7,316,352</u>	<u>11,467,170</u>

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NOTE 14 – DEBT SECURITIES AT AMORTISED COST

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Foreign currency debt securities (Note 14.a)	18,409,953	14,373,081
Kuna-denominated bonds of the Republic of Croatia (Note 14.b)	<u>15,827,367</u>	<u>–</u>
	<u>34,237,320</u>	<u>14,373,081</u>
Loss allowance for expected credit losses	<u>(22,329)</u>	<u>(7,687)</u>
	<u>34,214,991</u>	<u>14,365,394</u>

a) Foreign currency debt securities

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Foreign currency debt securities	18,327,145	14,308,359
Accrued interest	<u>82,808</u>	<u>64,722</u>
	<u>18,409,953</u>	<u>14,373,081</u>
Loss allowance for expected credit losses	<u>(8,725)</u>	<u>(7,687)</u>
	<u>18,401,228</u>	<u>14,365,394</u>

b) Kuna-denominated bonds of the Republic of Croatia

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Kuna-denominated bonds of the Republic of Croatia	15,712,642	–
Accrued interest	<u>114,725</u>	<u>–</u>
	<u>15,827,367</u>	<u>–</u>
Loss allowance for expected credit losses	<u>(13,604)</u>	<u>–</u>
	<u>15,813,763</u>	<u>–</u>

In the context of the COVID-19 pandemic, the Croatian National Bank has taken a series of monetary policy measures, including the purchase of bonds of the Republic of Croatia, to maintain the liquidity and stability of the financial system.

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NOTE 15 – BALANCES WITH THE INTERNATIONAL MONETARY FUND

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Membership quota	6,619,933	6,619,913
Special Drawing Rights (XDR)	2,805,455	2,803,820
Deposits	4,791	4,791
	<u>9,430,179</u>	<u>9,428,524</u>

NOTE 16 – DEBT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Foreign currency debt securities	45,653,798	47,174,201
Accrued interest	207,114	265,173
	<u>45,860,912</u>	<u>47,439,374</u>

Loss allowances for expected credit losses on debt securities at fair value through other comprehensive income amount to HRK 10,676 thousands as at 30 June 2020 (31 December 2019: HRK 12,363 thousands).

NOTE 17 – EQUITY SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – IRREVOCABLE ELECTION

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
BIS shares	41,914	41,914
SWIFT shares	80	80
ECB paid-up capital	19,954	17,171
	<u>61,948</u>	<u>59,165</u>

The paid-up capital of the European Central Bank (ECB) represents 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 of the ECB's capital. Subscriptions depend on the shares which are regulated by Article 29 of the Statute of the ESCB and the amounts are adjusted every five years.

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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 national central bank outside the euro area is not entitled to receive an appropriate share of the profit distribution of the ECB, and there is no obligation to cover the loss of the ECB.

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:

Table 1: The adjustment of the key for subscription to the capital of the ECB 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 – Finlands 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

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The European Central Bank kept its subscribed capital unchanged at EUR 10,825 million 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 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 374,274.62 in 2020.

The CNB's share in issued and paid-up capital of the ECB amounts to EUR 71,390,921.62 and EUR 2,677,159.56 respectively.

NOTE 18 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Investment in Croatian Monetary Institute	25,844	25,736
	<u>25,844</u>	<u>25,736</u>

The investment of the Croatian National Bank in the Croatian Monetary Institute represents investment in an associate in accordance with IAS 28 and it is accounted for using the equity method. The portion of the Croatian National Bank share in the capital of the Croatian Monetary Institute is 42.6%.

NOTE 19 – OTHER ASSETS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Accrued interest	6,979	7,917
Other participants funds in TARGET2	1,958,141	4,467,861
Other financial assets	27,915	27,889
	<u>1,993,035</u>	<u>4,503,667</u>
Loss allowance for expected credit losses	(7,524)	(7,526)
Total other financial assets	<u>1,985,511</u>	<u>4,496,141</u>
Prepaid expenses	445,305	443,181
Numismatics	9,349	9,458
Other non-financial assets	72,922	58,620
Total other non-financial assets	<u>527,576</u>	<u>511,259</u>
Total other assets	<u>2,513,087</u>	<u>5,007,400</u>

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

The major portion of prepaid expenses in the amount of HRK 406,433 thousands as at 30 June 2020 (31 December 2019: HRK 429,393 thousands) relates to the prepaid expenses of printing banknotes and minting coins.

NOTE 20 – BANKNOTES AND COINS IN CIRCULATION

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
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	3,574,584	3,688,456
Banknotes and coins in circulation – total balance	42,309,200	38,734,616

NOTE 21 – DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Kuna reserve requirements	19,374,367	24,890,304
Foreign currency accounts of TARGET2 system participants	1,958,141	4,467,861
Other deposits from domestic banks	50,059,311	44,993,153
Deposits from foreign banks and other financial institutions	72	72
Court-mandated deposits	270,861	273,406
	71,662,752	74,624,796

Due to banks and other financial institutions also comprises foreign currency accounts of participants in TARGET2 system. In addition to Note 21 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 9) and "Other assets" (see Note 19).

NOTE 22 – DUE TO THE INTERNATIONAL MONETARY FUND

<i>(All amounts are expressed in thousands of kuna)</i>	30/6/2020	31/12/2019
Kuna-denominated bills of exchange	6,600,528	6,600,618
Net cumulative allocations	2,797,249	2,797,255
Other IMF's accounts	16,620	16,619
	9,414,397	9,414,492

NOTE 23 – EQUITY

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

The 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 decisions of the Council of the Croatian National Bank.

NOTE 24 – CONTINGENT LIABILITIES AND COMMITMENTS AND TREASURY INVENTORY SYSTEM

a) **Capital commitments:** As at 30 June 2020, the capital commitments of the Croatian National Bank amounted to HRK 1,529 thousands (31 December 2019: HRK 3,754 thousands).

b) Treasury inventory system

(All amounts are expressed in thousands of kuna)

	30/6/2020	31/12/2019
Banknotes and coins not in circulation	40,710,023	44,546,507
Inventory of government stamps and bill-of-exchange forms	48,405	102,318
	<u>40,758,428</u>	<u>44,648,825</u>

c) Currency swap line with the European Central Bank

The Croatian National Bank has agreed upon establishing a currency swap line with the European Central Bank (ECB), to be activated if needed. The currency swap line allows for the exchange of the kuna for the euro in the amount of EUR 2 billion. This swap line gives the CNB the space to provide additional euro liquidity to Croatian financial institutions, should they need it, without using its own international reserves. The currency swap line will remain in place until 31 December 2020, and can be extended if necessary. The currency swap line has not been activated on the reporting date.

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NOTE 25 – RESULT FOR THE YEAR

<i>(All amounts are expressed in thousands of kuna)</i>	1/1 – 30/6/2020	1/1 – 30/6/2019
Surplus of income over expenditures/(shortfall between income and expenditures)	<u>2,199,901</u>	<u>(1,543)</u>
	<u>2,199,901</u>	<u>(1,543)</u>

The Croatian National Bank realised a surplus of income over expenditures in the reporting period in the amount of HRK 2,199,901 thousands (as of 30 June 2019, the shortfall between income and expenditures was HRK 1,543 thousands). The realised result was mainly due to the impact of net unrealised exchange differences for 2020 which are positive and amount to HRK 1,931,235 thousands, while net unrealised exchange differences for 2019 were negative and amounted to HRK 262,336 thousands (see Note 5).

NOTE 26 – FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In the process of determination of the fair value of financial assets and liabilities a market approach is used as a valuation technique. As a part of a 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 which 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 recognised by GIPS standards (Global Investment Performance Standards). The input data used are observable market values (interest rates), which corresponds to Level 2 of fair value hierarchy. The standard formula for calculating the price from the discount (US Treasury bills) or from the yield (euro-commercial papers) is applied to Level 2 securities.

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

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26.1 Financial assets and liabilities measured at fair value

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

(All amounts are expressed in thousands of kuna)	30/6/2020		
	Level 1	Level 2	Total
Financial assets at fair value through profit or loss			
<i>Foreign currency securities held for trading</i>			
Government securities	18,673,262	4,566,860	23,240,122
Collateralised bonds	413,016	–	413,016
Bank bonds with government guarantees	–	201,201	201,201
<i>Total securities held for trading (Note 11.a)</i>	<i>19,086,278</i>	<i>4,768,061</i>	<i>23,854,339</i>
<i>Assets under management with international financial institutions (Note 11.b)</i>	<i>1,364,002</i>	<i>–</i>	<i>1,364,002</i>
<i>Precious metals</i>	<i>8,308</i>	<i>–</i>	<i>8,308</i>
Total financial assets at fair value through profit or loss	20,458,588	4,768,061	25,226,649
Debt securities at fair value through other comprehensive income			
<i>Foreign currency securities at fair value through other comprehensive income</i>			
Government securities	41,306,834	–	41,306,834
Collateralised bonds	562,943	–	562,943
Securities of international financial institutions	3,117,221	–	3,117,221
Bank bonds with government guarantees	873,914	–	873,914
<i>Total foreign currency securities at fair value through other comprehensive income (Note 16)</i>	<i>45,860,912</i>	<i>–</i>	<i>45,860,912</i>
Total debt securities at fair value through other comprehensive income	45,860,912	–	45,860,912
Total	66,319,500	4,768,061	71,087,561

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26.1 Financial assets and liabilities measured at fair value (continued)

(All amounts are expressed in thousands of kuna)	31/12/2019		Total
	Level 1	Level 2	
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
Collateralised 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 11.a)</i>	29,729,164	8,336,739	38,065,903
<i>Assets under management with international financial institutions (Note 11.b)</i>	1,331,694	—	1,331,694
<i>Precious metals</i>	7,525	—	7,525
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
Collateralised 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 foreign currency securities at fair value through other comprehensive income (Note 16)</i>	47,206,808	232,566	47,439,374
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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26.2 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.

	30/6/2020			
	Level 1	Level 2	Total fair value	Book value
<i>(All amounts are expressed in thousands of kuna)</i>				
Loans	—	4,299,507	4,299,507	4,285,554
Foreign currency debt securities	18,702,804	—	18,702,804	18,401,228
Kuna-denominated bonds of the Republic of Croatia	15,677,109	—	15,677,109	15,813,763

	31/12/2019			
	Level 1	Level 2	Total fair value	Book value
<i>(All amounts are expressed in thousands of kuna)</i>				
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. In line with goods practices of the central banks, 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 measure. The Croatian National Bank does not intent to sell them in the future.

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

The fair values of 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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NOTE 27 – LOSS ALLOWANCE FOR EXPECTED CREDIT LOSSES

The table below shows the changes in loss allowances for expected credit losses:

Changes in loss allowances for expected credit losses 1 January – 30 June 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 30 June 2020
Cash and current accounts with other banks	204	(292)	271	(21)	183
Deposits with other banks	8,810	(11,122)	7,785	(3,337)	5,473
Loans	540	(532)	1,187	655	1,195
Reverse repo agreements	571	(747)	454	(293)	278
Foreign currency debt securities at amortised cost	7,687	(873)	1,911	1,038	8,725
Kuna-denominated bonds of the Republic of Croatia at amortised cost	-	(285)	13,889	13,604	13,604
Financial assets at fair value through other comprehensive income – debt instruments	12,363	(2,992)	1,305	(1,687)	10,676
Other financial assets	7,526	(6)	4	(2)	7,524
TOTAL	37,701	(16,849)	26,806	9,957	47,658

Increases in and decreases of 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 9,957 thousands. In the income statement, line item Impairment shows an increase in loss allowances for expected credit losses in the amount of HRK 9,718 thousands (see Note 7), while net negative exchange differences in line items loss allowances for expected credit losses totalling HRK 239 thousands are shown in line item Net unrealised exchange differences (see Note 5).

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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 debt 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

The total increase in loss allowances for expected credit losses in 2019 was HRK 9,640 thousands. In the income statement for 2019, line item Impairment shows an increase in loss allowances for expected credit losses in the amount of HRK 9,519 thousands, while net negative exchange differences in line items loss allowances for expected credit losses totalling HRK 121 thousands are shown in line item Net unrealised exchange differences.

NOTE 28 – RELATED PARTIES

During the reporting period, related parties were the same as those disclosed in the last financial statements of the Croatian National Bank and there were no significant changes in transactions with related parties, except that the Croatian National Bank started purchasing bonds of the Republic of Croatia (see Note 14.b).

NOTE 29 – EVENTS AFTER THE REPORTING PERIOD

In accordance with the provisions of the Agreement on division by acquisition of the company of capital concluded between Hrvatski novčarski zavod d.o.o. (Croatian Monetary Institute) and Agencija za komercijalnu djelatnost d.o.o. (Commercial Services Agency), the Croatian National Bank is registered at the Commercial Court in Zagreb as at 1 July 2020 as the sole member of the Croatian Monetary Institute, holding a business share of nominal value of HRK 17,426,300.00. In view of the established value of the business shares and assets and liabilities that are divided, the Croatian National Bank, as the member of the company that is divided (Croatian Monetary Institute), will pay the acquiring company (Commercial Services Agency)

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the compensation in cash in the amount of HRK 15,271,000.00 on account of the difference between the value of the existing business shares and the business shares and assets subject to the acquisition. The portion of the Croatian National Bank share in the capital of the Croatian Monetary Institute was 42.6% on the reporting date. As of 1 July 2020, the Croatian National Bank is the owner of 100% of business stakes of the Croatian Monetary Institute.

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).

After 30 June 2020 there were no other significant events that would have an impact on the financial statements of the Croatian National Bank.