

UniCredit Leasing Croatia d.o.o.

**Annual report for the year
ended 31 December 2020,
together with Independent
Auditor's report**

This version of our report is a translation from the original, which was prepared in 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 our report takes precedence over translation.

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Management Board's report

The Management Board has pleasure in submitting its annual report for the year ended 31 December 2020.

1. Business environment

In 2020, economic decline was strong, and was at -9.1%, due to the fact that the summer economic recovery was halted by the second wave of pandemic, and lighter version of lockdown, during autumn and beginning of the winter.

To support private sector (indirectly preventing negative impacts on the banking performance), government introduced some measures, among which wage support to keep employment was fiscally most generous. However, initial expanded version was replaced by narrower options later in the year.

In 2021, economic growth is expected to recover. However, the intensity of recovery also brings certain uncertainties, those related to the speed of vaccination and achieving a minimum level of immunity of citizens, the speed of absorption of generous EU facilities and the size of the fiscal support before tourism season. The effects of these factors are combined, the speed of the first two factors, as well as the delayed absorption of generous EU facilities could create a growth momentum.

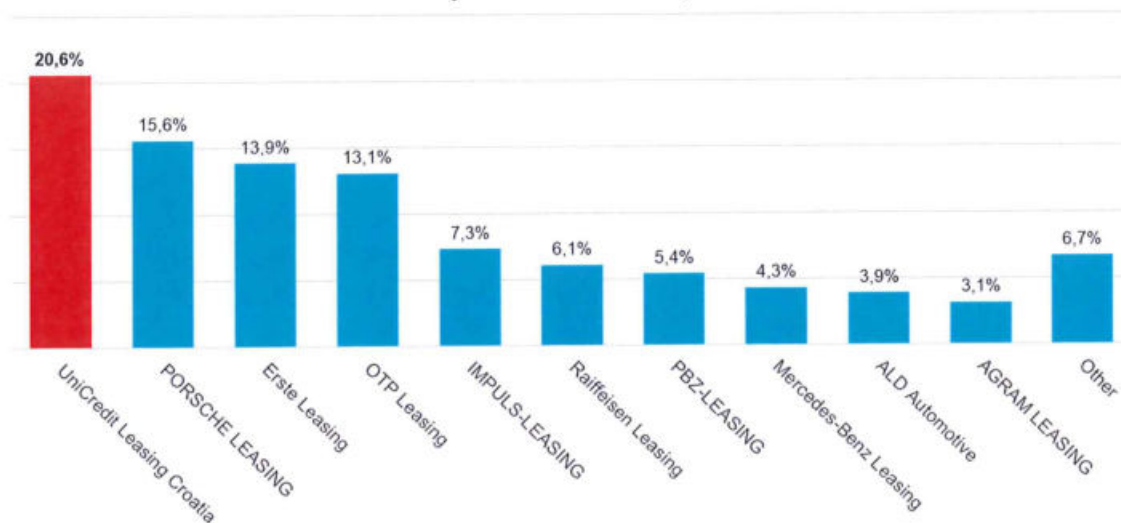
While monetary policy is likely to remain on the same path (extended liquidity and stable exchange rate within ERM II), the fiscal policy is set to squeeze in 2021 with intention to cut the deficit and restore declining path of public debt ratio. This remains as a challenge for economy that is still waiting for recovery momentum in recovery.

During 2020 there were 15 leasing companies active on the leasing market. Despite a decrease in the volume of financing in 2020 caused by the overall decrease on market level due to the pandemic, the company UniCredit Leasing Croatia d.o.o. achieved 18.4% share in the value of new contracts.

In 2020 UniCredit Leasing Croatia d.o.o. concluded 6,902 new contracts (2019: 14,689 new contracts) with total value of HRK 1,111 million (2019: HRK 2,121 million). Out of the total, 63% new contracts relate to finance lease and 37% to operating lease. Personal vehicles, commercial vehicles and equipment represent the major portion of the new contracts' volume.

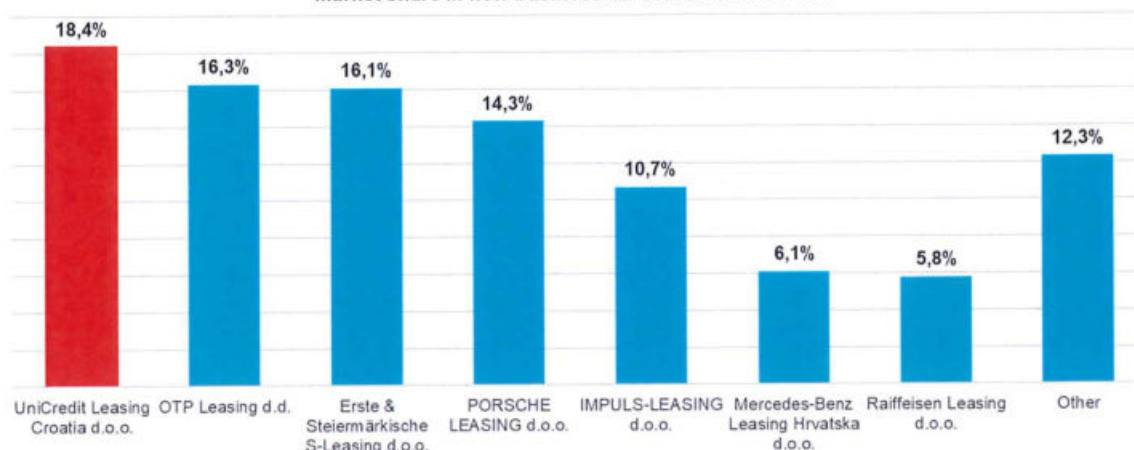
According to the size of assets UniCredit Leasing Croatia d.o.o. is the largest Croatian Leasing company in 2020.

Share by total assets on 30th September 2020



Source: HANFA, last available data on 30 September 2020

Market share in new business on 31st December 2020



Source: HGK and internal estimation as at 31 December 2020

2. Basic activity

The basic activity of the Company is providing finance and operating leases to individuals and legal entities in the Republic of Croatia.

3. Capital and reserves

Registered capital of 31 December 2020 amounted to HRK 28,742 thousand (2019: HRK 28,742 thousand). Capital and reserves of 31 December 2020 amounted to HRK 478 million (2019: HRK 474 million).

4. Management Board

Members of the Management Board during the year and up to the date of approval of the financial statements, were as follows:

- Gordana Martinović, Chairman of the Board (appointed on 2nd September 2020 until 15th February 2022),
- Aleksandra Rašić, Chairman of the Board (appointed on 29th March 2019 until 8th April 2020),
- Nikolina Žganec, Member of the Board (appointed on 2nd December 2016 until 15th February 2022),
- Marko Juranić, Member of the Board (appointed on 16th December 2016, appointed as Chairman of the Board from 8th April 2020 until 2nd September 2020 and Member of the Board from 1st January 2020 until 8th April 2020 and from 2nd September 2020 until 15th February 2022).

5. Supervisory Board

Members of the Supervisory Board during year and up to approval of financial statements were as follows:

- Dalibor Ćubela, Chairman of the Supervisory Board (appointed as Member on 7th September 2020 and appointed as Chairman on 15th September 2020),
- Spas Blagovestov Vidarkinsky, Deputy Chairman of the Supervisory Board (appointed as Member on 7th September 2020 and appointed as Deputy Chairman on 15th September 2020)
- Lorenzo Ramajola, Member of the Supervisory Board (appointed 7th May 2015),
- Ana Hudika, Member of the Supervisory Board (appointed 7th September 2020)
- Mirela Budojević Čulo, Member of the Supervisory Board (appointed 1st December 2020)
- Claudio Cesario, Chairman of the Supervisory Board until 7th September 2020 (appointed as Member on 15th September 2016, appointed as Chairman on 26th September 2016),
- Nikolaus Maximilian Linaric, Deputy Chairman of the Supervisory Board until 7th September 2020 (appointed as Deputy Chairman on 20th December 2018),

- Ognjen Brakus, Member of the Supervisory Board until 30th June 2020 (appointed 11th December 2015),
- Katarina Šobat, Member of the Supervisory Board until 1st December 2020 (appointed as Member on 15th September 2016).

6. Company organization

As of 31st December 2020 the Company has 148 employees.
 Structure of employees by their level of education is as follows:

Mag/Dr/other	University degree	Year degree	High school diploma	Non-qualified employee
2	81	22	43	0

UniCredit Leasing Croatia d.o.o. operates with headquarters in Zagreb through 9 branches located in Split, Rijeka, Osijek, Zadar, Varaždin, Pula, Šibenik, Koprivnica and Požega.

7. Review of business operations results

Review of business operation results for year 2020 is comprised in the Statement of comprehensive income within Unconsolidated financial statements.

In this very challenging 2020 the Company's net profit was HRK 3.5 million (-93.7%). The net profit is significantly affected by Covid-19 and is the result of (i) a decrease in net interest income from finance lease which amounted to HRK 130 million (-6.4%), (ii) lower income from operating lease and other income which amounted to HRK 273 million (-2.3%), (iii) lower depreciation which amounted to HRK 149 million (-8.1%), (iv) higher operating expenses which amounted to HRK 129 million (+0.1%), (v) higher impairment losses which amounted to HRK 83 million (+111.8%) due to increase of provisions for loss on financial assets due to uncertainty regarding full recovery and due to the transfer of several large clients to a non-performing portfolio and (vi) lower income tax expense which amounted to HRK 1.2 million (-43.8%).

Total assets amounted to HRK 4,048 million (2019: HRK 4,558 million). The decrease of HRK 510 million is a result of the absence of new sales due to the regular expiration of the existing portfolio.

Sales decrease in new business (-49%) compared to the previous year is a result of a covid pandemic and lockdown in the first half of 2020. Since the beginning of the crisis, in order to help individuals and legal entities overcome negative financial consequences and tried to preserve the quality of leasing portfolio, the Company has also started implementing measures (primarily moratorium) for up to 12 months. One third of the portfolio was affected by these measures in the first wave, and we expect an additional 15% of the portfolio to be affected in the second wave by the end of the first quarter of 2021. There was active monitoring and risk assessment of moratorium portfolio, which resulted in an increase in the share of the portfolio at Stage 2 and Stage 3, and consequently the amount of impairment.

Well-being and health of our employees and clients were our priority. To support the society in which we operate, we donated funds to the Croatian Red Cross and for mobile homes to earthquake affected citizens.

8. Significant effect after reporting date

After reporting date as of 31 December 2020 there were no significant events.

9. The objectives and policies of the Company relating to financial risk management and the Company's exposure to risks

The Company carries out a series of activities to adequately determine, measure, evaluate and report on the significant risks it is exposed to in its normal course of business. Risk Management and Strategic Management and Risk Control are essential in risk management process of the Company. The Company's strategy is to achieve a balanced risk and return to generate a sustainable and adequate return on equity, i.e. attain added value to the shareholders. The most significant risks the Company is exposed to are credit, liquidity, market and operational risk.

The Company is exposed to **credit risk** through finance and operating lease receivables. At origination, the Company analyses the creditworthiness of customers and seeks to conclude transactions with customers of sound credit rating. Furthermore, depending on the assessment of risk of each individual exposure, the Company is obtaining additional collateral and guarantees (in addition to the leased asset). Special attention is also placed on monitoring of the quality of leased assets until final settlement of lease contracts' liabilities.

In order to manage the **liquidity risk**, the Company continuously prepares cash flow projections i.e. forecasts its cash outflows and inflows. Liquidity risk management measures include prevention and elimination of potential causes of insolvency e.g. through short-term plans to bridge liquidity gaps or utilization of available overdraft.

Significant **market risks** the Company is exposed to are currency and interest rate risk. **Currency risk** arises from financial and operating lease receivables linked to EUR. This risk is managed by obtaining funding in the same corresponding currency and by hedge accounting.

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. In order to reduce the mismatch of interest positions, the Company manages its exposure to interest rate risk by monitoring its interest rate gap and by aligning maturities of assets with maturities of sources of finance.

In order to manage **operational risks** related to internal processes, people, technology and infrastructure or external events optimally the Company has its own system based on the Group's standards and the local regulatory requirements.

10. Development plan

The Company's target is to retain leading market position while preserving the adequacy of the level of profitability, risks and productivity. The Company will continue supporting SMEs through our own initiatives, within joint programs with Croatian Agency for SMEs, Innovations and Investments and EU guarantee programs. The Company will continue to provide financing through vendor channels, with specific focus on product development within strategic local and group vendors' partnerships and alignment of sales activities with Zagrebačka banka.

Development efforts will be focused on the development of digital solutions and applications with the aim of clients proximity, as well as on the constant improvements of internal processes, adequate level of automatization and better controls that have impact on the overall productivity and business security.

Special focus will also be on reducing levels of non-performing lease portfolio as well as on meeting the Group and regulatory requirements. A further human resource development focus will be on increasing competences and motivation of employees and enabling new options of working for a better work-life balance and greater efficiency, achieving a higher level of employee satisfaction and greater efficiency.

In order to align the cost structure with the revenue potential, the Company will consider its business model and organizational structure to preserve the quality and strength of the leading leasing company and ensure medium-term sustainability. Process optimization activities and merging and reducing some functions will be done in phase in the period 2021-2023. For colleagues who will be affected by the process of optimization and reorganization, economic compensation has been insured this year.

In Zagreb 19 February 2021

Gordana Martinović
President of the Board

Nikolina Žganec
Member of the Board

Marko Juranić
Member of the Board

 **UniCredit**
Leasing Croatia d.o.o.
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Responsibilities of the Management Board for the preparation and approval of the unconsolidated annual financial statements

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), which give a true and fair view of the state of affairs and results of UniCredit Leasing Croatia d.o.o. ("Company") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Gordana Martinović
President of the Management Board

Nikolina Žganec
Member of the Management Board

Marko Juranić
Member of the Management Board

19 February 2021



UniCredit
Leasing Croatia d.o.o.
Ulica Damira Tomljanovića Gavrana 17
10000 Zagreb 12

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of UniCredit Leasing Croatia d.o.o.

Report on the Audit of the annual financial statements

Opinion

We have audited the annual financial statements of UniCredit Leasing Croatia d.o.o. (the Company), which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present truly and fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended, in accordance with the Accounting Act and the International Financial Reporting Standards determined by the European Commission and published in the Official Journal of the EU (IFRS).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matters (continued)

Key audit matter	How we addressed the key audit matter
<p>Impairment of lease receivables</p> <p>At 31 December 2020, the net present value of receivables for finance lease payments before deferred allowance and impairment allowances amounted to HRK 3,169,314 thousand, impairment allowance of HRK 196,674 thousand, and the reversal of provisions recognized in the income statement HRK 62,471 thousand (31 December 2019: net present value of receivables for financial lease payments before deferral of allowances and impairment losses of HRK 3,423,245 thousand, impairment allowance of HRK 136,569 thousand and derecognition of provisions recognized in the income statement HRK 36,957 thousand).</p> <p>Receivables from operating leases at 31 December 2020 amounted to HRK 14,167 thousand, impairment allowance of HRK 6,769 thousand, reversal of provisions recognized in the income statement HRK 1,276 thousand (31 December 2019: receivables from operating leases amounted to HRK 38,384 thousand, impairment allowance of HRK 5,933 thousand, reversal of provisions recognized in the income statement HRK 562 thousand).</p>	
<p>Key audit matter</p> <p>Impairment allowances represent management's best estimate of the expected credit losses on lease receivables at the reporting date. We have focused on this area given that the amounts presented in the financial statements are material, as well as the nature of the judgments and assumptions made by the Management Board.</p> <p>IFRS requires management to make judgments about the future and various items in the financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customer are significant estimates.</p> <p>The impairment allowance is measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.</p> <p>Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Company is continuously recalibrating the model parameters which also requires our increased attention in the audit.</p>	<p>Audit procedures</p> <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • review of the Company's methodology for calculating expected credit loss and assessing compliance with the relevant IFRS 9 requirements, • understanding of the process of determining the impairment of lease receivables, the IT applications used, the assumptions for the data used in the expected credit loss model, • assessment of the design, implementation and operational effectiveness of controls in credit risk management and business processes related to impairment of receivables under lease agreements, and tested key controls related to process approval, recording and monitoring, • testing the design, implementation and operational effectiveness of key controls in the areas of customer rating, as well as controls related to the identification of impairment events and the calculation of impairment provisions, •

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the audit of the financial statements (continued)

Key Audit Matters (continued)

Key audit matter	Audit procedures
Impairment of lease receivables (continued)	
<p>Impairment allowances for performing lease exposures (stage 1 and 2) are determined by modelling techniques. Historical experience and management judgment are incorporated into the model assumptions, of which probability of default (PD) and loss given default (LGD) require higher level of judgment by the management.</p> <p>Determination of significant increase in credit risk, used for classification of exposures in stage 2 is primarily based on the change in internal credit rating of the client and days past due.</p> <p>Impairment allowances for non-performing exposures with days past-due less than 90, are determined by modelling techniques, based on the historical loss rates and adjustment for forward looking component ("collective impairment allowance"). For non-performing exposures with days past due more than 90, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral (primarily vehicles, equipment and business premises).</p> <p>Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis, with key inputs and assumptions including discount rates, collateral realization period and estimated value of the collateral.</p> <p>The main sources of uncertainty for estimates of impairment of lease receivables are the identification of deteriorating receivables, the assessment of significant increases in credit risk, the prediction of future cash flows, the assessment of collateral inflows and the determination of expected credit loss for receivables that are uncertain.</p> <p><i>Related disclosures in the annual financial statements</i></p> <p>See notes 2 II) d) and note 3 to the financial statements for the accounting policies and note 11, 14 and 15 for more details.</p>	<ul style="list-style-type: none"> • verifying, on a sample basis, that the definition of default is being applied consistently and that the allocation to the different stages of credit risk is consistent with relevant policies, • assessment of the overall model for calculating expected credit losses, including the calculation of major risk parameters and macroeconomic factors (default probability (PD), default loss (LGD) and default exposure (EAD)), testing of the adequacy of individual impairments based on a sample of individual trade receivables, • independent calculation of the ECL and comparison of the amounts obtained with the results of the ECL model provided by the Company on the selected sample of trade receivables, • evaluation of the accuracy and completeness of the disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How we addressed the key audit matter
<p><i>Classification of lease contracts</i></p> <p>At 31 December 2020, finance lease receivables, net of unearned future income, amount to HRK 2,972,640 thousand, receivables from operating leases amount to HRK 7,398 thousand, and equipment under operating lease amount to HRK 715,360 thousand (31 December 2019: finance lease receivables, net of unearned future income of HRK 3,286,676 thousand, receivables from operating leases amount to HRK 32,451 thousand, equipment under operating lease HRK 699,142 thousand).</p>	
<p>Key audit matter</p> <p>The main activity of the Company is to provide financial and operating leasing services. The Company enters into lease agreements with a number of business and private clients relating to the rental of property, which includes, among other things, business premises, equipment and vehicles.</p> <p>As a consequence, most of the Company's total assets consist of assets and equipment leased out and financial and operating lease receivables.</p> <p>The initial classification of a lease with a financial or operating lease involves a significant management assessment in applying the relevant criteria of IFRS 16 Leases, with significant effects on the subsequent accounting treatment of each individual lease.</p> <p>Due to above stated, as well as the size of the items, we consider the classification of the lease agreement a key audit area.</p> <p><i>Related disclosures in the annual financial statements</i></p> <p>See notes 2 II) p) and note 3 to the financial statements for the accounting policies and note 14,15 and 16 for more details-.</p>	<p><i>Audit Procedures</i></p> <ul style="list-style-type: none"> • assessment and testing of the design and implementation of the Company's internal controls over the classification of the lease agreement, including those relating to approving and recording key terms of the lease agreement and determining the characteristics of the contract that classify it as operating or finance leases, • on a sample of individual lease agreements, reviewing key contract terms and evaluating them against accounting requirements for the classification of leases, • comparison of the results of our own independent assessment of the classification of the lease agreement with the classification by the Company and, and inquiring management about and evaluating reasons for any discrepancies.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the financial statements (continued)****Other matters**

The audit of the annual financial statements of the Company for the year ended 31 December 2019 was performed by the audit company RSM Croatia d.o.o., Zagreb which in its independent Auditor's report dated February 19, 2020, expressed unmodified opinion on these annual financial statement.

Other Information in the Annual Report

The Management Board is responsible for other information. Other information include information included in the Annual Report, but do not include the annual financial statements and our Independent Auditor's Report on them.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent Auditor's Report, entitled Report on compliance with other legal or regulatory requirements, and we do not express any kind of conclusion with assurance on them.

In connection with our audit of the annual financial statements, it is our responsibility to read the other information and consider whether other information have significant contradictions to annual financial statements or our knowledge gained while performing the audit, or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of these other information, we are required to report this fact. In this sense, we do not have anything to report.

The Management Board is responsible for the preparation of the Annual Report of the Company as an integral part of annual financial statements. With respect to the Management Board Report of Company, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- If the Management Board Report of the Company has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;

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

- the information given in Management Board Report of the Company as part of the Annual report of the Company for the year 2020 are in accordance with the financial information stated in the annual financial statements of the Company set out on pages 16 to 91 on which we expressed our opinion as stated in the Opinion section above;
- the information given in Management Board Report of the Company is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the financial statements (continued)****Responsibilities of Management and those charged with Governance for the Annual Financial Statements**

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

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

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

Auditor's Responsibility for the audit of the annual financial statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the financial statements (continued)****Auditor's Responsibility for the audit of the annual financial statements (continued)**

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

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

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

Report on other legal and regulatory requirements

On 22 July 2020, the General Assembly of the Company appointed us to conduct an audit of the Company's annual financial statements for 2020.

We were first engaged as auditors of the Company in carrying out the Company's statutory audit of the Company's annual financial statements for 2020.

In the audit of the Company's annual financial statements for 2020, we have determined the following materiality level for the financial statements as a whole:

- for the annual financial statements: HRK 18,5 million

which represents approximately 0,5% of the Company's assets related to the core business (leasing) for 2020.

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

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

During the period between the initial date of the audited annual financial statements of the Company for the year 2020 and in the business year prior to the aforementioned period, we did not provide the Company with prohibited non-assurance services, and we did not provide, in the business year preceding the foregoing period, the design and implementation of internal control or risk management services related to the preparation and / or control of financial information or the design and implementation of financial information technology systems, and we have maintained independence in relation to the Company during the performance of the audit.

Pursuant to the Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission issued by the Croatian Financial Services Supervisory Agency (Official Gazette 41/16, 132/17), the Management Board of the Company has prepared the schedules set out on pages 92 to 97 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2020, and of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the accompanying financial statements set out on pages 95 to 97. The Management Board of the Company is responsible for the Schedules and the Reconciliation.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the financial statements (continued)****Report on other legal and regulatory requirements (continued)**

The financial information in the Schedules is derived from the financial statements of the Company set out on pages 16 to 91, on which we have expressed an unmodified opinion as set out above. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Company's management, and do not represent components of the financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, but rather a requirement specified by the Regulation.

The partner engaged in the audit of the Company's annual financial statements for the year 2020 resulting in this Independent auditor's report is Vanja Vlak, certified auditor.

Zagreb, 19 February 2021

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Vedrana Stipić, member of the
Management Board

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b



Vanja Vlak, certified auditor

Unconsolidated statement of comprehensive income

for the year ended 31 December 2020

	Notes	2020 HRK'000	2019 HRK'000
Interest and similar income	4	130,133	139,042
Interest expense and similar charges	5	(35,163)	(36,846)
Net interest income		94,970	102,196
Fee and commission income	6	5,298	5,377
Fee and commission expense	6	(1,992)	(2,159)
Net fee and commission income	6	3,306	3,218
Net other financial (losses) / gains	7	(6,612)	1,345
Income from operating leases	8	172,476	191,600
Other operating income	9	100,413	87,610
Operating income		364,553	385,969
Operating expenses	10	(128,529)	(128,377)
Depreciation and amortization	16, 18, 19	(148,513)	(161,668)
Net impairment losses and amounts written down on inventory	11	(82,799)	(39,093)
Profit before tax		4,712	56,831
Income tax expense	12	(1,246)	(2,217)
Profit for the year		3,466	54,614
Other comprehensive income		-	-
Total comprehensive income for the year		3,466	54,614

The significant accounting policies and other notes form an integral part of these financial statements.

Unconsolidated Statement of financial position

as at 31 December 2020

		2020	2019
	Notes	HRK'000	HRK'000
Assets			
Cash and cash equivalents	13	127,670	244,379
Finance lease receivables, net of unearned finance income	14	2,972,640	3,286,676
Receivables from operating leases	15	7,398	32,451
Equipment under operating leases	16	715,360	699,142
Investment property	17	17,621	32,685
Other equipment used by the Company	18	3,665	6,087
Intangible assets	19	6,188	7,064
Other financial assets	20	3,279	297
Deferred tax asset	21	45,910	32,971
Other assets	22	112,755	170,668
Inventory	23	5,823	33,290
Receivables from prepaid income tax		6,664	11,973
Non-current assets and disposal groups classified as held for sale	24	22,802	-
Total assets		4,047,775	4,557,683
Liabilities and equity			
Liabilities			
Interest-bearing borrowings	25	3,445,577	3,972,741
Guarantee deposits from customers	26	1,525	3,678
Other liabilities	27	122,837	106,894
Total liabilities		3,569,939	4,083,313
Equity			
Issued capital	28	28,742	28,742
Reserves		24	24
Retained earnings		445,604	390,990
Profit for the year		3,466	54,614
Total equity		477,836	474,370
Total liabilities and equity		4,047,775	4,557,683

The significant accounting policies and other notes form an integral part of these financial statements.

Unconsolidated statement of changes in equity

	issued capital HRK'000	Other reserves HRK'000	Retained earnings HRK'000	Total HRK'000
At 1 January 2019	28,742	24	458,676	487,442
Impact of merger of Hypo Alpe-Adria- Leasing d.o.o. in liquidation	-	-	46	46
Paid dividend	-	-	(67,732)	(67,732)
Profit for the year	-	-	54,614	54,614
Total comprehensive income for the year	-	-	54,614	54,614
At 31 December 2019	28,742	24	445,604	474,370
At 1 January 2020	28,742	24	445,604	474,370
Profit for the year	-	-	3,466	3,466
Total comprehensive income for the year	-	-	3,466	3,466
At 31 December 2020	28,742	24	449,070	477,836

Unconsolidated statement of cash flows

For the year ended 31 December 2020

	Notes	2020 HRK'000	2019 HRK'000
Profit before tax		4,712	56,831
Depreciation and amortization		148,513	161,668
Gain / loss on disposal of property and equipment under operating leases, finance leases and other assets		(5,580)	(3,012)
Impairment losses / gains and other provisions		82,799	39,093
Net gains / losses from foreign exchange differences		6,612	(1,345)
Net interest income		(94,970)	(102,196)
Other non-cash items		(10,720)	3,131
Decrease / Increase in finance lease receivables		282,682	(394,144)
Decrease / Increase in operating lease receivables		23,536	(27,461)
Decrease in inventories		29,712	17,312
Decrease in other assets		58,623	52,586
Decrease / Increase in guarantee deposits		(2,207)	2,394
Increase in other liabilities		9,785	9,853
Interest charged		117,638	118,599
Paid interest		(35,181)	(36,934)
Net cash flows from operating activities before tax		615,964	(103,625)
Income tax paid		(8,875)	(13,679)
Net cash used in operating activities		607,079	(117,204)
Cash flows from investing activities			
Acquisition of property and equipment under operating leases		(319,876)	(281,572)
Proceeds from disposal of property and equipment under operating leases		163,275	285,009
Acquisition of other equipment		(2,047)	(10,778)
Proceeds from disposal of other equipment		3,429	1,388
Net cash flows from investing activities		(155,219)	(5,953)
Cash flows from financing activities			
Inflows from Interest-bearing borrowings		(568,980)	167,965
Dividends paid		-	(67,732)
Increase based on other financial activities		-	46
Net cash flows used in financing activities		(568,980)	100,279
Effect of exchange rate and other non-cash fluctuations on cash and cash equivalents		411	(322)
Net (decrease) in cash and cash equivalents		(116,709)	(23,200)
Cash and cash equivalents at beginning of the year		244,379	267,579
Cash and cash equivalents at the end of the year	13	127,670	244,379

The significant accounting policies and other notes form an integral part of these financial statements.

Notes to the unconsolidated financial statements

1 Reporting entity

UniCredit Leasing Croatia d.o.o. ("the Company") is a limited liability company incorporated in the Republic of Croatia in accordance with the laws and regulations of the Republic of Croatia. Its registered offices are at Damira Tomljanovića Gavrana 17, Zagreb, Croatia.

The Company is from 1st of April 2015, 100% owned by Zagrebačka Banka dd, which is part of UniCredit Group. The ultimate parent of the Company is UniCredit S.p.A. Milan. The share capital of the company amounts to HRK 28,741,800.

Principal activities of the Company:

- Financial leasing
- Operative leasing
- activities that are directly or indirectly related to leasing operations; sale and lease and rental of leasing objects returned to the leasing company whose owner is the leasing company on the basis of performing leasing activities

Other data:

- PIN: 18736141210
- EIN: 080185577
- Size: a big entrepreneur

The Croatian Financial Services Supervisory Agency ("the Agency") acts as the regulator of the Company.

2 Basis of preparation and significant accounting policies

1) Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), and represent a translation into English of the financial statements presented in Croatian. These financial statements were authorised by the Management Board on 19 February 2021 for issue to the Supervisory Board.

b) Basis of measurement

The financial statements represent the annual financial statements of the Company. The Company is consolidated by Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, Zagreb, which belongs to UniCredit S.p.A. and which is the ultimate parent of the Company. The unconsolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

l) Basis of preparation (continued)

c) Functional and presentation currency

The financial statements are presented in Croatian kuna ("HRK"), which is the Company's functional currency, rounded to the nearest thousand. The effective exchange rate at 31 December 2020 was HRK 7.536898 to 1 EUR (2019: HRK 7.442580).

d) Use of estimates and judgments

In preparing the financial statements in accordance with IFRS, management has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of commitments and contingencies at the reporting date, as well as the amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, which together form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 3.

COVID-19 outbreak

COVID-19 outbreak constitutes significant event and source of uncertainty which requires management to apply judgements and estimates in assessing its impact on the financial position and performance.

During the financial year 2020, COVID-19 pandemic has spread in the region in which the Company operates affecting Company's economic activities and the resulting profitability.

The slow-down of economic activities and postponement in investments has determined a reduction of all revenues (interests and operating lease income) due to associated downturn of financial markets.

The market environment is affected by uncertainties about the existence and the degree of the economic recovery in future periods as well as the evolution of the pandemic.

1. Covid -19 impact on measurement of financial and non-financial assets recognised in the balance sheet

Credit exposures

The slow-down of the economic activity resulting from the pandemic Covid-19 and the associated lock-down measures has affected the estimates on credit exposures recoverability and the calculation of the associated loan loss provisions. The amount of loan loss provisions is determined considering the current and expected classification of credit exposures and credit parameters (Probability of Default, Loss Given Default and Exposure at Default) which, in accordance with IFRS 9 incorporate among other factors forward looking information and the expected evolution of the macro-economic scenario.

In this context the Group has updated macro-economic scenarios as at 31 December 2020, considering in addition to a base scenario also an adverse scenario and a positive scenario and applying weighting factors to the scenarios.

Notes to the unconsolidated financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****1) Basis of preparation (continued)****d) Use of estimates and judgments (continued)**

Based on above mentioned, at the end of 2020 the coverage of the performing portfolio by the expected credit losses increased by 0.53 bp compared to the end of 2019, while the share of Stage 2 loans in total loans in 2020 increased by 11.4 bp, or by HRK 300 million.

Performing portfolio ECL coverage

Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020
1.07%	1.45%	1.66%	1.57%	1.60%

Stage 2 loan ratio

Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020
20.0%	22.0%	26.9%	28.9%	31.4%

The measurement is affected by the degree of uncertainty on the evolution of the pandemic, the effect of the relief measures and, ultimately, the start and the degree of economic recovery.

The evolution of these factors may require in future financial years the classification of additional credit exposures as non-performing, thus determining the recognition of additional loan loss provisions related to both these exposures as well as performing exposures following the update in credit parameters.

In this context, among other factors, the relevant will be the ability of the customers to service their debt once moratoria measures will expire.

Adjustments to the loan loss provisions might be required by the occurrence of a macro-economic scenario different from the one estimated for the calculation of the credit risk parameters, or by the prevalence of non-performing exposures on the market, or prices different from those used in the measurement.

Non-financial assets

For the real estate portfolio, the fair value model (assets held for investment) and the revaluation model (assets used in the business) is applied starting from December 2019. On 31 December 2020, fair value of these assets has been determined through external appraisals, incorporating relevant market available fair value measurement inputs. In this context it is worth to note that in the upcoming financial years fair value of these assets might be impacted by the evolution of real estate market which will also depend on the remote working practices once the lock-down measures will be lifted.

II. Covid-19 Relief programs to customers

To support our clients, the Group delivered relief measures including standstill and moratoriums applicable for leasing.

Until 31 December 2020 around 1,000 clients (15%) are benefitting from relief measures.

The following table summarizes the associated carrying amounts outstanding as at 31 December 2020.

Notes to the unconsolidated financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****1) Basis of preparation (continued)****d) Use of estimates and judgments (continued)**

	Number of clients	Gross receivables			Expected credit loss		
		Total	Performing	Non-performing	Total	Performing	Non-performing
		HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Receivables subject to EBA-compliant moratoria	304	194,682	180,906	13,776	(10,923)	(7,241)	(3,682)
of which: Households	24	2,777	2,777	-	(24)	(24)	-
of which: Non-financial corporations	280	191,905	178,129	13,776	(10,899)	(7,217)	(3,682)
Other receivables subject to COVID-19 related forbearance measures	97	127,984	27,117	100,868	(29,565)	(1,279)	(28,286)
of which: Households	2	1,292	1,292	-	(12)	(12)	-
of which: Non-financial corporations	95	126,693	25,825	100,868	(29,553)	(1,267)	(28,286)

The Company will continue in supporting clients and adequately assessing their creditworthiness, carefully considering the adequacy of risk classification as well as the related impact on financial reporting.

In accordance with the CNB and ECB instructions and HANFA recommendation the availability of these relief measures to a general population of customers was not itself an automatic trigger for classification into forbore category or to conclude that a significant increase in credit risk has occurred for all clients who utilized the measures.

III. Monitoring activities

Following the introduction of COVID-19 measures to help the economy the Company further intensified the monitoring activities of clients' portfolio, the so-called UTP analysis, with special priority to clients who use or have used some of the COVID-19 measures. The analysis is performed no later than three months from the contracting of the measure, while the priority is given to clients with the forbearance measure or with the delay in payment of obligations to the Leasing.

Regular quarterly activities of identifying high-risk portfolio ("COVID-19 High sensitive") include the assessment of the industrial sector (clustered in high, medium, low risk industries), of financial indicators, days past due, changes in internal rating, as well as the expert assessment of the risk management function (in charge of recognizing UTP or default status or insolvency).

IV. Covid-19 outbreak impacts on statement of going concern

The Management considers that the emergence of COVID-19 outbreak during the financial year 2020 and the associated lock-down measures have determined negative effects that are expected to be partially offset by the economic relief measures put in place by the Government and the European Union.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

l) Basis of preparation (continued)

d) Use of estimates and judgments (continued)

The Management has considered these circumstances in the assessments of significant items of the financial statements. Acknowledging the unpredictability surrounding the economic recovery and the impact of the lock-down measures adopted, the Management believes with reasonable certainty that the Company will continue to operate profitably in the foreseeable future.

As a result, in accordance with the provisions of IAS 1, these unconsolidated financial statements were prepared on a going concern basis.

2020 Earthquakes

In addition to COVID 19, the two strong earthquakes in 2020 amplified the negative impact on the Croatian economy. First one was in March in Zagreb with no impact on company's Headquarter while second one much stronger hit Sisak-Moslavina County near Zagreb with more severe consequences for citizens, their homes, companies and the entire County in general.

Moratoria and standstill arrangements to the affected Group's debtors citizens and companies are being approved.

e) Acquisition of entities under common control

UniCredit Leasing Croatia d.o.o. has, on 29 January 2019, merged with Hypo Alpe-Adria-Leasing d.o.o. in liquidation in order to increase business interconnectivity and increase business efficiency.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies

a) *Interest income and expense*

Interest income and expense are recognised in Statement of comprehensive income as they accrue, for all interest-bearing financial instruments including those measured at amortised cost and finance lease receivables, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income also includes fee and commission income relating to one-off fees charged on finance and operating leases.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

The penalty interest are calculated at the rate of statutory default interest when receiving the payment for the period.

b) *Net fee and commission income and expenses*

Net fee and commission income are recognised in profit or loss as they accrue. Mentioned fees do not have interest-bearing character. Fee and commission income and expenses comprise penalty fees, early redemption fees, other fee income and dealer commissions, profit sharing, bank charges and agent fees. Fee income is deferred through the lease period.

c) *Foreign currency translations*

Transactions in foreign currencies are translated into Croatian kuna at the rate of exchange at the date of the transaction. Finance leases and interest-bearing borrowings are translated into Croatian kuna at the selling rate of exchange and mid-rate of exchange ruling at the reporting date as determined by the leasing and borrowing agreements. Loan liabilities are translated into Croatian kuna at the middle exchange rate at the reporting date.

Other monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Croatian kuna at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in Statement of comprehensive income as gains less losses on foreign exchange translations of monetary assets and liabilities. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

d) *Financial instruments*

Classification

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, at fair value through other comprehensive income, at amortized cost and other financial liabilities at amortized cost. The management determines the classification of financial instruments upon initial recognition.

i) Financial assets

Financial assets are measured at amortized cost if both of the following conditions are met:

- (a) financial asset are held within business model whose purpose is to hold a financial asset for collection of contractual cash flows, and
- (b) contractual cash flows represent solely payments of principal and interest on the outstanding principal amount (SPPI).

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

- (a) financial asset are held within business model whose purpose is the collection of contractual cash flows and the sale of financial asset, and
- (b) contractual cash flows represent solely payments of principal and interest on the outstanding principal amount (SPPI).

Financial assets are measured at fair value through profit or loss, unless they are measured at amortized cost or at fair value through other comprehensive income.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets.

SPPI: the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

ii) Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss, and include interest-bearing borrowings, guarantee deposits and other liabilities.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

d) Financial instruments (continued)

Recognition and derecognition

All financial assets and financial liabilities at fair value through profit or loss are recognised at the trade date, which is the date that the Company commits to purchase or sell the asset. Financial assets and other financial liabilities carried at amortised cost are recognised when advanced to borrowers or received from lenders.

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

Initial and subsequent measurement

Financial assets and liabilities are initially measured at the fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised. All financial assets at fair value through profit or loss are subsequently carried at fair value without any deduction for transaction costs that the Company may incur on sale or other disposal. Financial assets and other financial liabilities are carried at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

d) *Financial instruments (continued)*

Fair value measurement principles

The fair value of financial instruments at fair value through profit or loss is based on their quoted market price at the reporting date, without any deduction for transaction costs. The fair value of derivative instruments that are not exchange traded is estimated at the amount that the Company would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Stage 1: quoted price (unadjusted) in an active market;
- Stage 2: inputs other than quoted prices included in Stage 1 that are observable for the financial assets, either directly (for example prices) or indirectly (for example derived from prices);
- Stage 3: inputs for assets are not based on observable market data (for example valuation techniques using significant unobservable inputs).

Gains and losses on subsequent measurement

Realised and unrealised gains and losses arising from changes in fair value of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise, within other operating income or operating expenses.

Impairment of financial assets and finance lease receivables

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income in the amount equal to:

- 12-month expected credit losses, ie. the expected credit losses for the entire life-time of financial instrument as a result of the event of default that are possible within 12 months after the reporting period date (Stage 1) or
- expected credit losses over the entire life-time of financial instrument resulting from a significant increase in credit risk over the life-time of the financial instrument (Stage 2) or
- expected credit losses over the entire life-time of financial instrument resulting from all other non-performing events over the life-time of the financial instrument (Stage 3).

Notes to the financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

d) Financial instruments (continued)

Impairment of financial assets and finance lease receivables (continued)

Financial assets and finance lease receivables are reviewed at each reporting date to determine whether there is objective evidence of impairment or significant increase in credit risk since initial recognition for the purpose of calculating adequate loss allowance for expected credit losses. Financial assets and finance lease receivables are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets and finance lease receivables are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower will enter bankruptcy, pre-bankruptcy settlement, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

If any such indication exists, the asset's recoverable amount is estimated. The Company estimates and performs impairment of all financial assets, including receivables under finance and operating lease contracts at both individual and collective level. All individually significant financial assets are individually assessed for specific impairment. Financial assets that are not individually significant are collectively assessed for specific impairment by grouping together loans and receivables with similar risk characteristics.

Finance lease receivables, receivables from operating leases and other financial assets, are presented net of impairment losses for uncollectability. The recoverable amount of a financial asset measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Specific impairment losses are made against the carrying amount of financial assets and finance lease receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these financial assets and finance lease receivables to their recoverable amounts. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of scheduled lease obligations. Increases in impairment losses are recognised in Statement of comprehensive income.

When a financial asset or receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan or receivable is written off directly. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment, the impairment is reversed through Statement of comprehensive income.

All financial assets and finance lease receivables, as well as operating lease receivables found not to be specifically impaired are collectively assessed for impairment based on 12-month expected credit losses.

Notes to the financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****li) Significant accounting policies (continued)****e) Specific financial instruments***Derivative financial instruments*

The Company uses derivative financial instruments and hedge accounting to hedge economically its exposure to foreign exchange risk arising from operational activities. Those derivative instruments are accounted for as financial instruments held for trading. Derivative instruments are measured initially and subsequently at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Embedded derivatives

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value through profit or loss. The Company reviews the terms and conditions of each lease agreement to reassess whether it contains an embedded derivative that could be separated in accordance with International financial reporting standard ("IFRS 9"). In an operating lease agreement with a eur, the embedded derivative is separated from the host contract and accounted for as a derivative because the economic substance and risks of the derivative are not closely related to those of the host contract and because the host contract is not carried at fair value. Such embedded derivatives are recognised initially and carried subsequently at fair value. Any gains or losses from subsequent remeasurement at fair value are recognised immediately in profit or loss. In subsequent remeasurement the fair value of an embedded derivative is equal to the fair value of the forward component of the future principal cash outflows under operating leases, i.e. any future principal repayment under each operating lease agreement is valued as a separate forward, i.e. measured separately.

Trade and other receivables

Trade and other receivables are initially recognised at the fair value of consideration given and are subsequently stated at amortised cost, using the effective interest rate. Trade and other receivables are written down to their estimated realisable value through an impairment allowance.

Trade and other payables and guarantee deposits from customers

Trade and other payables are measured at amortised cost, using the effective interest rate.

Non-interest-bearing guarantee deposits from customers are stated at their nominal value as they are payable on demand, upon contract termination or redemption.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, plus attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the Statement of comprehensive income over the period of the borrowings on an effective interest basis.

Notes to the financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****II) Significant accounting policies (continued)****e) Specific financial instruments (continued)****Cash and cash equivalents**

Cash and cash equivalents comprise cash in banks with due date less than three months from the reporting date.

f) Revenue from contracts with customers

Revenue from customer contracts is accounted for in the Statement of comprehensive income based on contractual provisions. If the performance obligation is satisfied at a certain point in time, the related income is recognized in Statement of comprehensive income when the service is provided; if the performance obligation is satisfied over time, the related income is recognized in the income statement in order to reflect the progress in settlement of that obligation.

g) Property and equipment

Items of property and equipment are initially recognized at cost. Cost includes expenditures that are directly attributable to the acquisition of assets.

The Company recognises in the carrying amount of an item of property and other equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are recognized as an expense in the period in which they are incurred. Where parts of property and equipment have different useful lives, they are recorded as separate items of property and equipment.

After initial recognition of the building and land used by the Company in its operations, they are subsequently measured using the revaluation method. The revaluation method requires that a property whose fair value can be measured reliably, to be carried at revalued value, which represents its fair value at the date of revaluation less accumulated depreciation and accumulated impairment. The fair value of land and buildings is measured based on market benchmarks, according to appraisal prepared by a qualified and professional appraiser. The frequency of revaluation depends on changes in the fair value of the revalued property.

When buildings and land are revalued, the carrying amount of those assets is adjusted to the revalued value in such a way that the accumulated depreciation is reduced relative to the gross carrying amount of the property, and the effects of revaluation are stated as follows:

- when the carrying amount of buildings and land increases as a result of revaluation, that increase is recognized in other comprehensive income and accumulates in equity in the item revaluation reserves;
- when the carrying amount of buildings and land is reduced due to revaluation, this decrease is recognized in the Statement of comprehensive income;
- if the revaluation has increased the carrying amount, the increase is recognized in the Statement of comprehensive income up to the amount of the previous impairment recognized in the Statement of comprehensive income for that property;
- if the revaluation has decreased the carrying amount, the impairment loss is recognized in other comprehensive income up to the present value of the revaluation reserves related to those assets.

Notes to the financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

g) Property and equipment (continued)

Revaluation reserves arising from positive changes in the value of buildings and land used by the Company in its operations are gradually transferred to retained earnings for the remaining useful life of the assets. In the case of sale and derecognition of assets, the remaining revaluation reserves stated in other comprehensive income are transferred at the moment of sale of assets to Retained earnings.

Equipment and other tangible assets are subsequently measured and stated at investment cost less accumulated depreciation and accumulated impairment losses.

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in Statement of comprehensive income.

Investment property

Investment property is a property owned by the Company, from which the Company intends to gain income from the lease of it or from the increase of its market value or both. It is initially measured at investment cost that includes all transaction costs. Subsequent to initial recognition, subsequent measurement is carried out using the fair value model.

Any gain or loss arising from a change in the fair value of an investment property is recognized in the Statement of comprehensive income in the period in which it is incurred. Fair value can be determined based on the selling price if there is a comparable selling price in the market, or by applying the discounted expected future cash flows generated from investment property.

The cost of investing in property acquired through the exchange of non-monetary assets or a combination of monetary and non-monetary assets is carried at fair value if it is reliable and measurable.

Investment property is not amortized.

Transfer of real estate to and from the category investment property is possible and is carried out only in case of change of intention of the Company to use these assets.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in statement of comprehensive income in the period in which the property is derecognised.

Notes to the financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****II) Significant accounting policies (continued)****g) Property and equipment (continued)***Equipment used by the Company*

Assets acquired but not brought into use are not depreciated. Depreciation on other assets is provided on a straight-line basis to allocate their cost to their residual values over the estimated economic useful life of the assets. The estimated useful lives are as follows:

	2020	2019
Office equipment	4-5 years	4-5 years
Mobile phones	2 years	2 years
Furniture	4-10 years	4-10 years
Other not mentioned assets	10 years	10 years
Vehicles	4 years	4 years

The right to use the leased property is amortized in accordance with the contractual term of the lease.

Property and equipment under operating leases

Assets under operating leases are depreciated on a straight line basis so as to write down the cost of the assets to their estimated recoverable residual values over the estimated lease period. The expected useful life is the duration of each operating lease contract.

h) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Expenditure on development activities is capitalised if all of the features required by IAS 38 *Intangible Assets* are satisfied. Amortisation is provided on a straight-line basis over the estimated useful lives of intangible assets. All other costs associated with intangible assets are recognised as an expense as incurred.

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

	2020	2019
Software	2-7 years	2-7 years
Leasehold improvements – Zagreb, Pula	2-6 years	2-6 years
Leasehold improvements – Rijeka, Split	10 years	10 years

The amortisation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The useful life on leasehold improvements is determined in accordance with the lease period.

i) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in Statement of Comprehensive Income. The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

11) Significant accounting policies (continued)

j) Provisions for liabilities and charges

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Provisions for restructuring are recognized when the Company adopts a detailed formal restructuring plan and the restructuring has already begun or has been announced. No provisions are formed for future operating losses.

Provisions for onerous contracts are recognized when the expected benefits that the Company will obtain from such contract are lower than the unavoidable cost of meeting the contractual obligations. Provisions are determined in the amount of the present value of the expected cost of terminating the contract and the expected net cost if the contract is continued, whichever is lower. Before determining the amount of the provision, the Company recognizes any loss due to the impairment of assets related to the contract.

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

k) Dividend

Dividend income is recognised in profit or loss when the right to receive the dividend is established. Dividends are paid after the shareholders' approval on General Meeting.

l) Employee benefits

Defined pension contributions

The Company pays contributions to insurance plans on a mandatory, contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Short-term benefits

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

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

The Company also recognises provisions for unused holidays and jubilee awards.

Provisions for retirement benefits

The Company operates a defined pension benefit plan for its employees. Under the plan, all the employees are entitled to a one-off benefit upon entering retirement, which is equal for all employees. The plan has been structured based on the assumption that the first condition for early retirement has been met on an individual employee basis. The benefits are discounted in order to arrive at their present value.

Provisions for the benefit for an individual employee are determined using the discount rate and the average fluctuation rate for the last five years.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

m) *Income Tax*

The Company provides for taxation on profits in accordance with Croatian law. Income tax charged on the result for the year comprises current and deferred tax. Income tax is recognised in Statement of Comprehensive income except to the extent that it relates to items recognised directly in equity and reserves, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Net deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

As part of its regular operations, the Company concludes transactions and makes calculations according to which the final amount of tax cannot be determined with certainty. The Company recognizes liabilities for expected potential tax issues in a tax audit, which are based on estimates of whether an additional tax liability will arise. If the final tax outcome of these tax issues differs from the amount originally calculated, the resulting differences will affect the provisions for income tax and deferred tax in the period of the final tax decision. Calculations that support the tax return may be subject to review and approval by the local tax administration.

n) *Inventory*

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventory is carried at estimated net realisable value, based on an estimate of fair market value. The Company has regard to prices achieved on sales from inventory of similar assets, and to the length of time for which the asset has been available for sale.

Leased assets are transferred to inventory upon cancellation of lease agreements and repossession of the related assets. For finance leases the Company derecognises all finance lease receivables not yet due and instead recognises the repossessed asset as inventory at estimated net realisable value (provided this does not exceed the carrying amount of the lease receivables). Any adjustment to reduce the carrying amount of lease receivables to the estimated net reliable value of inventory is recognised as a value adjustment on inventory. In cases where the estimated net realisable value of the repossessed asset exceeds the carrying value of the finance lease, inventory is carried at the carrying value of the previous lease receivables.

If operating lease is cancelled, the Company similarly reclassifies the repossessed asset as inventory at net realisable value (provided this does not exceed the carrying amount of the fixed asset), with adjustments to reduce the carrying value to net realisable value also recognised as a value adjustment of inventory.

Notes to the unconsolidated financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****II) Significant accounting policies (continued)****o) Non-current assets held for sale**

The Company classifies non-current assets held for sale that are expected to be recovered principally through a sale transaction rather than through continuing use. This condition is considered fulfilled only when the sale is very probable and if the property is available for immediate sale in the existing condition. Management must agree with sale which is expected to take place within one year of classification.

Prior to classification as held for sale, the asset is valued in accordance with the Company's accounting policies. Thereafter, the asset is measured at the carrying amount or fair value less costs to sell, whichever is lower.

Fixed assets classified as held for sale are no longer depreciated. Impairment losses on initial classification into items held for sale and subsequent gains or losses on subsequent measurement are recognized in the profit and loss.

p) Leases

IFRS16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

- **The Company as a lessor**

Finance leases

Leases where the Company, as lessor, transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the future lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised in Statement of Comprehensive income over the term of the lease using the effective interest rate method.

Operating leases

The Company, as lessor, classifies all leases other than finance leases as operating leases. Operating leases are included in property and equipment under operating leases at cost net of accumulated depreciation and impairment. Payments made under operating leases are recognized in Statement of Comprehensive income on a straight-line basis over the term of the lease.

- **The Company as a lessee**

At the initial recognition, the right to use the asset is measured on the basis of the lease contract cash flows. The cost of these assets includes the following: the amount of the initial measurement of the lease obligation, lease payments made on or before the commencement date, all initial direct costs incurred by the lessee and an estimate of the costs incurred by the lessee in dismantling and removing the place where the property is located or the return of the property in question to the condition required under the terms of the lease. After the initial recognition the right-of-use will be measured on the basis of the rules set for the assets by IAS16, IAS 38 or by IAS40 and therefore applying the cost model, less any accumulated depreciation and any accumulated impairment losses, the revaluation model or the fair value model as applicable.

Notes to the unconsolidated financial statements (continued)**2 Basis of preparation and significant accounting policies (continued)****II) Significant accounting policies (continued)****p) Leases (continued)**

Assets with the right of use are depreciated using the straight-line method over the term of the lease, which is determined in accordance with the duration of the vehicle lease agreement and the lease of real estate. In order to calculate the lease liability and the related right-of-use asset, the Group proceeds with discounting the future lease payments at a proper discount rate. In this respect, future lease payments to discount are determined based on contractual provisions and net of VAT as the obligation to pay such a tax starts when the invoice is issued by the lessor and not at the starting date of the lease contract.

To perform the mentioned calculation lease payments have to be discounted at the interest rate implicit in the contract or, if it is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract. In determining the lease term it is necessary to consider the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset taking also into account potential renewal options if the lessee is reasonably certain to renew. In particular, with regard to those contracts that allows the lessee to tacitly renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased and any other circumstance indicating the reasonably certainty of the renewal.

q) Issued capital and reserves

Issued capital is stated in HRK at nominal value. The result for the year is transferred to reserves.

Other reserves include non-registered capital acquired as a result of previous mergers with other group companies.

r) Effective standards, amendments to standards and implementations – adopted in 2020

Except for the changes below, the Company has consistently applied the accounting policies as set out in the Notes below to all periods presented in these unconsolidated financial statements.

In 2020 the following standards, amendments or interpretations came into force:

- Amendments to References to the conceptual Framework in IFRS Standards (EU Regulation 2019/2075);
- Amendments to IAS 1 and IAS 8: Definition of Material (EU Regulation 2019/2104);
- Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform (EU Regulation 2020/34);
- Amendments to IFRS 3: Business Combinations (EU Regulation 2020/551);
- Amendment to IFRS 16: Leases Covid 19-Related Rent Concessions (EU Regulation 2020/1434).

These amendments provide lessees with an exemption (permitted and not required) from assessing whether a COVID-19-related rent concession is a lease modification. Entities applying the exemption, available from 1 June 2020, would account for the changes as if they were not lease modifications.

The Company has not applied the exemption foreseen by the IFRS16 Amendments.

Adoption of these standards has not determined substantial effects on the amounts recognized in balance sheet or income statement.

Notes to the unconsolidated financial statements (continued)

2 Basis of preparation and significant accounting policies (continued)

II) Significant accounting policies (continued)

s) Standards and amendments to the existing standards adopted but not yet effective

The standards, amendments to standards and interpretations that are issued, but not yet effective, up to the 19 February 2021, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

As at 31 December 2020, the European Commission endorsed the following changes to the Accounting principles applicable to reporting, which entered into force on or after 1 January 2021:

- Amendments to IFRS 4: Insurance Contracts – deferral of IFRS 19 (EU Regulation 2020/2097)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (August 2020)

As at 31 December 2020 the IASB issued the following standards, amendments, interpretations or revisions, whose application is subject to completion of the endorsement process by the competent bodies of the European Commission, which is still ongoing:

- IFRS17 Insurance Contracts (May 2017) including Amendments to IFRS 17: Insurance Contracts (June 2020);
- Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (January 2020 and 15 July 2020, respectively)
- Amendments to IFRS3: Business combination (May 2020);
- Amendments to IAS 16: Property, Plant and Equipment (May 2020);
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (May 2020);
- Amendments to Annual Improvements 2018-2020 (May 2020).

These standards, are not expected to significantly affect the Company's financial statements.

Notes to the unconsolidated financial statements (continued)

3 Critical accounting estimates and judgments

The Company makes judgments, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Classification of lease contracts

The Company acts as a lessor in operating and finance leases. Where the Company as a lessor transfers substantially all the risks and rewards incidental to ownership to the lessee, the leases are classified as finance leases. Leases where the Company as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible assets at cost net of accumulated depreciation. In determining whether the leases are operating or finance the Company considers the requirements of International Financial Reporting Standard 16 "Leases".

Impairment losses on receivables

The Company reviews its portfolios financial assets (including amounts receivable under finance and operating leases) to assess impairment on a monthly basis in accordance with the policy for recognition of specific and portfolio-based or collective impairment losses described in Note 2(II)(d).

The assessment for impairment of individually significant assets is based on an evaluation of the ability and willingness of the customer to service its debt. A financial asset is impaired if there is objective evidence of impairment or significant increase in credit risk since initial recognition for the purpose of calculating adequate loss allowance for expected credit losses, as a result of one or more events that occurred after the initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty or bankruptcy of the borrower, default or delinquency in interest or principal payments, adverse changes in the value or enforceability of collateral and other observable data indicating that there is a decrease in the recoverable amount.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount for finance lease receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. In cases when the borrower experiences financial difficulty and the Company relies on collateral (the leased asset) to collect the asset, the value and marketability of the assets is reassessed in order to calculate the present value of the future cash flows which reflects the cash flows that may result from selling the collateral less any costs for obtaining and selling collateral. In the case of potentially impaired receivables under operating leases, the recoverable amount is similarly calculated.

Assets which are not individually significant are included in the basis for collective impairment assessment. For the purposes of collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics (asset type, collateral type, industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

In assessing the need for impairment of allowances, the Company makes assumptions about the quantum and timing of cash flows from impaired leases. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

In assessing the need for impairment allowances, the Company also takes into account the fair market value of the leased assets in quantum. Leased property and equipment are valued every three years by independent estimator. Leased property and equipment are also valued internally every year, and if there is an indication of change in value, external evaluations are performed.

Notes to the unconsolidated financial statements (continued)

3 Critical accounting estimates and judgments (continued)

Impairment losses on inventories

The Company, when transferring repossessed assets to inventory, requires external evaluations to ensure inventories are recognised at their net recoverable amount.

Regulatory requirements

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

Tax

The Company provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

Fair value of financial instruments

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

In management's opinion, the fair value of cash and cash equivalents, placements with banks, and trade and other receivables is not significantly different from their carrying value due to the short-term nature of these financial instruments.

The fair value of finance lease receivables, net of unearned finance income is calculated based on discounted expected future cash flows. Repayments are assumed to occur at contractual repayment dates. The carrying value of finance lease receivables with variable interest rate is considered to approximate their fair value, excluding the effect of expected future losses.

The majority of the Company's borrowings are with variable rates being market rates.

Provisions for court cases

Provisions are calculated when the Company has a current legal or potential obligation as a result of past events and if it is probable that a cash outflow will be needed that will impact the economic benefits to settle its liabilities, and if reliable estimates of liabilities can be calculated. Provisions are held at a level that the Company's management considers sufficient to cover the losses incurred. Management of the Company determines the adequacy of the provisions based on insights into individual items, current legal conditions as well as other relevant factors.

Provisions for court cases are presented in the Company's records as the impairment allowance during the period in which the provisions were made.

Notes to the unconsolidated financial statements (continued)**4 Interest and similar income**

	2020 HRK'000	2019 HRK'000
Interest income is calculated using the effective interest method	119,142	127,101
<i>Finance leases</i>	119,142	127,101
Other interest income	10,991	11,941
<i>Intercalary interest</i>	1,635	2,146
<i>Penalty interest</i>	352	1,498
<i>Other interest</i>	8,982	8,253
<i>Placements with banks</i>	22	44
	130,133	139,042

5 Interest expense and similar charges

	2020 HRK'000	2019 HRK'000
Interest expense is calculated using the effective interest method	35,163	36,846
<i>Interest-bearing borrowings</i>	32,452	35,729
<i>Interest-bearing loans - fees</i>	2,555	946
<i>Interest-bearing loans - foreign exchange differences</i>	49	(5)
<i>Lease liabilities</i>	107	176
	35,163	36,846

Notes to the unconsolidated financial statements (continued)**6 Net fee and commission income**

	2020 HRK'000	2019 HRK'000
<i>Fee and commission income</i>		
Penalty fees	830	1,722
Early redemption fees	1,406	1,922
Other fee income	3,062	1,733
	<u>5,298</u>	<u>5,377</u>
<i>Fee and commission expense</i>		
Bank fees - payments	(145)	(135)
Bank fees - bank guarantees	(523)	(763)
Bank fees - other	(1,324)	(1,261)
Bank fees - foreign exchange differences	-	1
	<u>(1,992)</u>	<u>(2,159)</u>
	<u>3,306</u>	<u>3,218</u>

Notes to the unconsolidated financial statements (continued)

7 Net other financial (losses) / gains

	2020 HRK '000	2019 HRK '000
Net loss from foreign exchange differences - realized	(731)	(1,184)
Net loss / gain from foreign exchange differences - unrealized	(6,155)	1,903
Financial assets designated as at fair value through profit and loss – ownership instrument	-	15
Gain from hedging	274	611
	(6,612)	1,345

Gain arising from hedge transactions relates to hedging of operating lease.

Other financial instruments that are valued at fair value are related to gains from the fair value of the investments in the Fortenova Group Topco B.V. bonds.

8 Income from operating leases

	2020 HRK'000	2019 HRK'000
Rental income	160,105	179,488
Other operating lease income	12,371	12,112
	172,476	191,600

9 Other operating income

	2020 HRK'000	2019 HRK'000
Income from recoverable costs related to leases	63,601	63,294
Gain on disposal of property and equipment under operating leases, net	2,715	1,942
Gain on disposal of repossessed assets under finance leases, net	2,865	2,056
Rental income	4,945	4,871
Gain on investment property measured at fair value	13,286	-
Revenue from Risk participation Merkur	8,601	7,824
Other operating income	4,400	7,623
	100,413	87,610

Notes to the unconsolidated financial statements (continued)**9 Other operating income (continued)**

Revenue from Risk participation of Merkur refers to the collection of receivables under terminated contracts in the amount of HRK 6,169 thousand (2019: HRK 6,524 thousand), which payment was made by the owner of Merkur Hrvatska d.o.o. - in bankruptcy. The remaining revenue in the amount of HRK 2,432 thousand (2019: HRK 1,300 thousand) relates to the write-off of liabilities under Risk participation to OTP Bank d.d. for the related contracts.

10 Operating expenses

	2020 HRK'000	2019 HRK'000
Recoverable costs related to leases	71,422	69,905
Salaries and staff expenses	38,549	38,434
General and administrative expenses	15,848	15,932
Loss on investment property measured at fair value	-	2,514
Loss on disposal of own and other assets	2,239	984
Other expenses	471	608
	128,529	128,377

Recoverable costs related to leases refer to additional services provided by the leasing company to clients (eg maintenance), and re-invoicing of costs (eg registration, insurance) incurred on the basis of the leasing contracts. Staff expenses include HRK 6,132 thousand (2019: HRK 5,982 thousand) of defined pension contributions paid or payable into pension plans. Contributions are calculated as a percentage of employees' gross salaries. The Company had 148 employees at 31 December 2020 (2019: 143 employees). Staff expenses also include HRK 769 thousand (2019: HRK 480 thousand) of provisions created in respect of unused holiday, provisions for jubilee awards HRK 77 thousands (2019: HRK 31 thousands) and provision for retirement HRK 0 thousand (2019: HRK 13 thousand).

11 Net impairment losses and amounts written down on inventory

	Notes	Stage 1 and stage 2 HRK'000	Stage 3 HRK'000	Other losses HRK'000	2020 HRK'000	Stage 1 and stage 2 HRK'000	Stage 3 HRK'000	Other losses HRK'000	2019 HRK'000
Impairment losses/(release) on cash and cash equivalents	13	(150)	-	-	(160)	(56)	-	-	(58)
Impairment losses/(release) on finance lease receivables	14	10,964	51,507	-	62,471	8,128	28,829	-	36,957
Impairment losses/(release) on receivables from operating leases	15	(5)	1,281	-	1,276	26	536	-	662
Impairment losses/(release) on property and equipment under operating leases	16			(194)	(194)	-	-	(1,528)	(1,528)
Impairment losses/(release) on other assets	22	99	196		295	3,204	(1,679)	-	1,525
Impairment losses on inventory of repossessed leasing objects	23			754	764	-	-	662	662
Provisions for court cases	26			1,542	1,542	-	-	1,082	1,082
Provision for off balance sheet		(83)	-	16,888	16,805	88	(199)	-	(111)
		10,825	52,984	18,990	82,799	11,390	27,487	216	39,093

Notes to the unconsolidated financial statements (continued)**12 Income tax expense**

	2020 HRK'000	2019 HRK'000
a) Income tax expense recognized in profit or loss		
Current tax expense	14,185	1,676
Deferred tax (income) / expense (Note 21)	(12,939)	541
Total income tax expense recognized in profit or loss	1,246	2,217
b) Reconciliation of income tax expense		
	2020 HRK'000	2019 HRK'000
Profit before tax	4,712	56,831
Income tax expense at 18% (2019: 18%)	848	10,230
Non-deductible expenses	15,400	693
Non-taxable income	(2,063)	(2,637)
Deferred tax income-recognition of previously unrecognized temporary differences	(12,939)	541
Use of tax losses carried forward		(6,610)
Income tax expense recognized in profit or loss	1,246	2,217
Effective tax rate	26.44%	3.90%

13 Cash and cash equivalents

	2020 HRK'000	2019 HRK'000
Bank and giro accounts	127,721	244,582
- <i>denominated in HRK</i>	11,528	147,685
- <i>denominated in foreign currency</i>	116,193	96,897
Receivables for interests	23	20
- <i>receivables for interests in HRK</i>	12	15
- <i>receivables for interests in foreign currencies</i>	11	5
Less: Allowance for expected credit losses	(74)	(223)
	127,670	244,379

Notes to the unconsolidated financial statements (continued)**13 Cash and cash equivalents (continued)****Movements in provisions for impairment of cash and cash equivalents**

	2020 HRK'000	2019 HRK'000
At 1 January	223	279
Net charge for year (Note 11)	(150)	(56)
Foreign exchange differences	1	-
At 31 December	74	223

14 Finance lease receivables, net of unearned finance income

	2020 HRK'000	2019 HRK'000
Total gross investment in finance leases	3,442,054	3,765,867
Less: Unearned finance income	(272,740)	(342,622)
Net present value of minimum lease payments	3,169,314	3,423,245
Less: Allowance for expected credit losses	(196,674)	(136,569)
Net investment in finance leases	2,972,640	3,286,676

At 31 December 2020 the Company had HRK 8,524 thousand (2019: HRK 56,236 thousand) of finance lease contracts in the process of activation (which are not included in the table above).

The total gross investment in finance leases at 31 December 2019 at remaining maturity was as follows:

	2020 HRK'000	2020 HRK'000	2020 HRK'000	2019 HRK'000	2019 HRK'000	2019 HRK'000
	Principal	Interest	Total	Principal	Interest	Total
Up to one year	372,094	10,791	382,885	512,970	48,508	561,478
More than one and less than five years	2,004,059	170,631	2,174,690	1,699,761	167,293	1,867,054
Over five years	793,161	91,318	884,479	1,210,514	126,821	1,337,335
	3,169,314	272,740	3,442,054	3,423,245	342,622	3,765,867

Notes to the unconsolidated financial statements (continued)**14 Finance lease receivables, net of unearned finance income (continued)****Movements of net present value of receivables by financial lease by stages**

	2020	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		2,262,398	757,812	403,035	3,423,245
Increases due to new placements		531,541	178,797	24,905	735,243
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		34,396	(34,107)	(289)	-
Transfer to Stage 2		(491,959)	492,480	(521)	-
Transfer to Stage 3		(94,967)	(95,766)	190,732	(1)
Reduction of placements due to repayment		(652,105)	(271,887)	(61,446)	(985,438)
Write-off		-	-	(3,735)	(3,735)
Effect of foreign exchange differences		-	-	-	-
Merger of subsidiaries		-	-	-	-
Other changes		-	-	-	-
At 31 December		1,589,304	1,027,329	552,681	3,169,314

	2019	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		1,687,732	898,592	433,901	3,020,225
Increases due to new placements		912,283	317,899	12,095	1,242,277
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		387,657	(380,099)	(7,558)	-
Transfer to Stage 2		(128,352)	146,905	(18,554)	(1)
Transfer to Stage 3		(28,874)	(23,301)	52,175	-
Reduction of placements due to repayment		(572,669)	(202,226)	(65,551)	(840,445)
Write-off		-	-	(3,902)	(3,902)
Effect of foreign exchange differences		-	-	-	-
Merger of subsidiaries		4,621	41	429	5,091
Other changes		-	-	-	-
At 31 December		2,262,398	757,812	403,035	3,423,245

Notes to the unconsolidated financial statements (continued)

14 Finance lease receivables, net of unearned finance income (continued)

Movement in impairment allowance for finance lease receivables

	2020 HRK'000	2019 HRK'000
At 1 January	136,569	102,726
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	-	384
Net charge for year (Note 11)	62,471	36,957
Write-offs	(3,735)	(3,900)
Foreign exchange differences	1,369	402
At 31 December	196,674	136,569

Notes to the unconsolidated financial statements (continued)**14 Finance lease receivables, net of unearned finance income (continued)****Movements in provisions for impairment of receivables by financial lease by stages**

	2020	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		7,909	22,194	106,466	136,569
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		167	(166)	(1)	-
Transfer to Stage 2		(2,177)	2,187	(10)	-
Transfer to Stage 3		(858)	(3,431)	4,289	-
Changes in impairment losses due to change in credit risk (net)		1,136	9,828	51,507	62,471
Write-off		-	-	(3,735)	(3,735)
Effect of foreign exchange differences		30	146	1,193	1,369
Merger of subsidiaries		-	-	-	-
Other changes		-	-	-	-
At 31 December		6,207	30,758	159,709	196,674
	2019	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		11,254	10,959	80,513	102,726
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		460	(427)	(33)	-
Transfer to Stage 2		(1,950)	3,496	(1,546)	-
Transfer to Stage 3		(608)	(1,442)	2,050	-
Changes in impairment losses due to change in credit risk (net)		(1,480)	9,608	28,829	36,957
Write-off		-	-	(3,900)	(3,900)
Effect of foreign exchange differences		139	-	263	402
Merger of subsidiaries		94	-	290	384
Other changes		-	-	-	-
At 31 December		7,909	22,194	106,466	136,569

Notes to the unconsolidated financial statements (continued)**14 Finance lease receivables, net of unearned finance income (continued)**

Finance lease receivables are monitored by ageing of overdue receivables in bands within and over a one year period, as follows:

	2020 HRK'000 Total	2019 HRK'000 Total
Net present value of minimum lease payments		
Overdue by 30 days or less	9,418	15,294
Overdue 31 - 60 days	1,653	1,878
Overdue 61 - 120 days	1,290	2,520
Overdue 121 - 180 days	731	521
Overdue 181 - 365 days	2,322	868
Overdue over 1 year	43,810	45,584
	<hr/>	<hr/>
Total overdue receivables	59,224	66,665
	<hr/>	<hr/>
Outstanding receivables (not yet due)	3,110,090	3,356,580
	<hr/>	<hr/>
Net present value of minimum lease payments	3,169,314	3,423,245
	<hr/>	<hr/>
Less: Allowance for expected credit losses	(196,674)	(136,569)
	<hr/>	<hr/>
Net investment in finance leases	2,972,640	3,286,676
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Notes to the unconsolidated financial statements (continued)**14 Finance lease receivables, net of unearned finance income (continued)**

Finance lease receivables net of unearned finance income include investment in finance "sale and leaseback" leases (where the lessee has sold its previously owned asset to the Company for an up-front payment, and the Company has leased the asset back to the lessee under a finance lease).

Below is an overview of finance "sale and leaseback" leases receivables:

	2020 HRK'000 Total	2019 HRK'000 Total
Total gross investment in finance leases	854,727	950,035
Less: Unearned finance income	(76,439)	(91,487)
	<hr/>	<hr/>
Net present value of minimum lease payments	778,288	858,548
	<hr/>	<hr/>
Less: Allowance for expected credit losses	(88,737)	(77,088)
	<hr/>	<hr/>
Net investment in finance "sale and leaseback" leases	689,551	781,460
	<hr/>	<hr/>
Net investment in finance leases	2,972,640	3,286,676
	<hr/>	<hr/>

The remaining contractual maturity of net present value of minimum lease payments under "sale and leaseback" arrangements is given in the table below:

	2020 HRK'000 Principal	2020 HRK'000 Interest	2020 HRK'000 Total	2019 HRK'000 Principal	2019 HRK'000 Interest	2019 HRK'000 Total
Up to one year	132,242	21,289	153,531	137,482	23,101	160,583
More than one and less than five years	459,604	48,896	508,500	481,112	58,060	539,172
Over five years	186,442	6,254	192,696	239,954	10,326	250,280
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	778,288	76,439	854,727	858,548	91,487	950,035
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Notes to the unconsolidated financial statements (continued)

15 Receivables from operating leases

	2020 HRK'000	2019 HRK'000
Receivables from operating leases	14,167	38,384
Less: Allowance for expected credit losses	(6,769)	(5,933)
	<u>7,398</u>	<u>32,451</u>

Movement of receivables by operating lease by stages

	2020	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		31,127	1,244	6,013	38,384
Increases due to new placements		3,464	2,749	325	6,538
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		42	(36)	(6)	-
Transfer to Stage 2		(463)	497	(34)	-
Transfer to Stage 3		(75)	(2,010)	2,085	-
Reduction of placements due to repayment		(29,288)	(839)	(137)	(30,264)
Write-off		-	-	(491)	(491)
Effect of foreign exchange differences		-	-	-	-
Merger of subsidiaries		-	-	-	-
Other changes		-	-	-	-
At 31 December		4,807	1,605	7,755	14,167

Notes to the unconsolidated financial statements (continued)**15 Receivables from operating leases (continued)**

	2019	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		4,572	658	6,132	11,362
Increases due to new placements		29,886	851	258	30,995
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		158	(136)	(22)	-
Transfer to Stage 2		(344)	344	-	-
Transfer to Stage 3		(100)	(180)	279	(1)
Reduction of placements due to repayment		(3,045)	(293)	(373)	(3,711)
Write-off		-	-	(261)	(261)
Effect of foreign exchange differences		-	-	-	-
Merger of subsidiaries		-	-	-	-
Other changes		-	-	-	-
At 31 December		31,127	1,244	6,013	38,384

Movement in impairment allowance on receivables from operating leases

	2020 HRK'000	2019 HRK'000
At 1 January	5,933	5,607
Net charge for year (Note 11)	1,276	582
Write-offs	(491)	(261)
Foreign exchange differences	51	25
At 31 December	6,769	5,933

Notes to the unconsolidated financial statements (continued)**15 Receivables from operating leases (continued)*****Movements in provisions for impairment of receivables by operating leases by stages***

	2020	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		9	35	5,889	5,933
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		-	-	-	-
Transfer to Stage 2		(1)	4	(3)	-
Transfer to Stage 3		-	(19)	19	-
Changes in impairment losses due to change in credit risk (net)		(4)	(1)	1,281	1,276
Write-off		-	-	(491)	(491)
Effect of foreign exchange differences		1	-	50	51
Merger of subsidiaries		-	-	-	-
Other changes		-	-	-	-
At 31 December		5	19	6,745	6,769
	2019	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
At 1 January		15	5	5,587	5,607
Decreases due to cessation of recognition (no write-offs)		-	-	-	-
Transfer to Stage 1		-	-	-	-
Transfer to Stage 2		(4)	4	-	-
Transfer to Stage 3		-	(2)	2	-
Changes in impairment losses due to change in credit risk (net)		(2)	28	536	562
Write-off		-	-	(261)	(261)
Effect of foreign exchange differences		-	-	25	25
Merger of subsidiaries		-	-	-	-
Other changes		-	-	-	-
At 31 December		9	35	5,889	5,933

Notes to the unconsolidated financial statements (continued)**15 Receivables from operating leases (continued)**

Operating lease receivables are monitored by ageing of overdue receivables in bands within and over a one year period, as follows:

	2020 HRK'000 Total	2019 HRK'000 Total
Receivables from operating leases		
Overdue by 30 days or less	7,161	19,260
Overdue 31 - 60 days	368	1,631
Overdue 61 - 120 days	381	57
Overdue 121 - 180 days	239	12
Overdue 181 - 365 days	624	1,243
Overdue over 1 year	5,394	16,181
Total overdue receivables	14,167	38,384
Less: expected credit losses	(6,769)	(5,933)
Net receivables from operating leases	7,398	32,451

Notes to the unconsolidated financial statements (continued)**16 Equipment under operating leases**

2020	Motor vehicles and vessels HRK'000	Technical equipment HRK'000	Total HRK'000
Cost			
At 1 January 2020	934,924	22,664	957,588
Additions	286,438	30,558	316,996
Disposals	(238,037)	(11,194)	(249,231)
Transfer to inventory	(33,310)	(458)	(33,768)
At 31 December 2020	950,015	41,570	991,585
Accumulated depreciation and impairment			
At 1 January 2020	247,083	11,363	258,446
Charge for the year	136,515	6,774	143,289
Disposals	(94,690)	(8,848)	(103,538)
Transfer to inventory	(21,414)	(366)	(21,780)
Impairment releases / losses	(195)	3	(192)
At 31 December 2020	267,299	8,926	276,225
Carrying value at 1 January 2020	687,841	11,301	699,142
Carrying value at 31 December 2020	682,716	32,644	715,360

Notes to the unconsolidated financial statements (continued)

16 Equipment under operating leases (continued)

2019	Motor vehicles and vessels HRK'000	Technical equipment HRK'000	Total HRK'000
Cost			
At 1 January 2019	1,070,832	14,489	1,085,321
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	36,986	7,776	44,762
Additions	302,263	2,185	304,448
Disposals	(421,044)	(1,103)	(422,147)
Transfer to inventory	(54,113)	(683)	(54,796)
At 31 December 2019	934,924	22,664	957,588
Accumulated depreciation and impairment			
At 1 January 2019	225,001	4,759	229,760
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	22,158	5,121	27,279
Charge for the year	153,385	3,071	156,456
Disposals	(126,895)	(884)	(127,779)
Transfer to inventory	(26,042)	(557)	(26,599)
Impairment releases / losses	(524)	(147)	(671)
At 31 December 2019	247,083	11,363	258,446
Carrying value at 1 January 2019	845,831	9,730	855,561
Carrying value at 31 December 2019	687,841	11,301	699,142

Notes to the unconsolidated financial statements (continued)**16 Equipment under operating leases (continued)*****Movement in impairment allowance on property and equipment under operating leases***

	2020 HRK'000	2019 HRK'000
At 1 January	319	990
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	-	856
(Release) / charge for year (Note 11)	(194)	(1,528)
Foreign exchange differences	2	1
	<hr/>	<hr/>
At 31 December	127	319
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Minimum lease payments under operating leases

The total minimum lease payments under operating leases at remaining contractual maturity are as follows:

	2020 HRK'000	2019 HRK'000
Up to one year	176,689	182,009
More than one and less than five years	222,441	220,802
Over five years	1,399	282
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	400,529	403,093
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At 31 December 2020 the Company had HRK 1,808 thousand (2019: HRK 522 thousand) of operating lease contracts in the process of activation (which are not included in the table above).

Notes to the unconsolidated financial statements (continued)**16 Equipment under operating leases (continued)**

Property and equipment under operating leases include operating "sale and leaseback" leases (where the lessee has sold its previously owned asset to the Company for an up-front payment, and the Company has leased the asset back to the lessee under an operating lease).

Below is an overview of property and equipment under operating "sale and leaseback" leases:

2020	Motor vehicles and vessels HRK'000	Technical equipment HRK'000	Total HRK'000
Cost			
At 1 January 2020	58,903	1,020	59,923
Additions	51,711	-	51,711
Disposals	(57,599)	-	(57,599)
Transfer to inventory	(165)	-	(165)
At 31 December 2020	52,850	1,020	53,870
Accumulated depreciation and impairment			
At 1 January 2020	4,223	67	4,290
Charge for the year	9,842	137	9,979
Disposals	(9,701)	-	(9,701)
Transfer to inventory	(47)	(1)	(48)
Impairment charges	-	-	-
At 31 December 2020	4,317	203	4,520
Carrying value of property and equipment under "sale and leaseback" operating leases at 1 January 2020	54,680	953	55,633
Carrying value of property and equipment under "sale and leaseback" operating leases at 31 December 2020	48,533	817	49,350

Notes to the unconsolidated financial statements (continued)

16 Equipment under operating leases (continued)

2019	Motor vehicles and vessels HRK'000	Technical equipment HRK'000	Total HRK'000
Cost			
At 1 January 2019	39,961	683	40,644
Additions	106,211	1,020	107,231
Disposals	(86,913)	-	(86,913)
Transfer to inventory	(356)	(683)	(1,039)
At 31 December 2019	58,903	1,020	59,923
Accumulated depreciation and impairment			
At 1 January 2019	3,436	526	3,962
Charge for the year	15,559	99	15,658
Disposals	(14,734)	-	(14,734)
Transfer to inventory	(51)	(558)	(609)
Impairment charges	13	-	13
At 31 December 2019	4,223	67	4,290
Carrying value of property and equipment under "sale and leaseback" operating leases at 1 January 2019	36,525	157	36,682
Carrying value of property and equipment under "sale and leaseback" operating leases at 31 December 2019	54,680	953	55,633

Minimum lease payments under operating "sale and leaseback" leases

The total minimum lease payments under operating leases at remaining contractual maturity are as follows:

	2020 HRK'000	2019 HRK'000
Up to one year	49,029	68,463
More than one and less than five years	8,735	17,161
Over five years	-	-
	57,764	85,624

Notes to the unconsolidated financial statements (continued)**17 Investment property**

2020	Investment property HRK'000
At 1 January 2020	32,685
Additions	-
Disposals	(5,548)
Fair value adjustments	13,286
Transfer to Assets held for sale	(22,802)
At 31 December 2020	17,621

2019	Investment property HRK'000
At 1 January 2019 - restated	37,568
Additions	4
Disposals	(2,374)
Fair value adjustments	(2,514)
At 31 December 2019	32,685

Estimates of the fair value of real estate at the presented reporting date were conducted by an independent appraiser based on available comparable market transactions. Due to current market situation, caused by the COVID-19 pandemic, it is possible that real estate values will go through a period of increased volatility in the short term period.

Investment property by fair value hierarchy

	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
31 December 2020				
<i>Investment property</i>	-	-	17,621	17,621
31 December 2019				
<i>Investment property</i>	-	-	32,685	32,685

Notes to the unconsolidated financial statements (continued)**18 Other equipment used by the Company**

2020	Office equipment HRK'000	Furniture HRK'000	Right of use (personal vehicles) HRK'000	Right of use (real estate) HRK'000	Total HRK'000
Cost					
At 1 January 2020	4,718	1,763	1,922	5,873	14,276
Additions	217	152	216	413	998
Disposals and write offs	(99)	(68)	(431)	(258)	(856)
At 31 December 2020	4,836	1,847	1,707	6,028	14,418
Accumulated depreciation and impairment					
At 1 January 2020	3,961	1,370	639	2,219	8,189
Charge for the year	322	124	604	2,370	3,420
Disposals and write offs	(99)	(68)	(431)	(258)	(856)
At 31 December 2020	4,184	1,426	812	4,331	10,753
Net book value					
Carrying value at 1 January 2020	757	393	1,283	3,654	6,087
At 31 December 2020	652	421	895	1,697	3,665

Notes to the unconsolidated financial statements (continued)**18 Other equipment used by the Company (continued)**

2019	Office equipment HRK'000	Furniture HRK'000	Right of use (personal vehicles) HRK'000	Right of use (real estate) HRK'000	Total HRK'000
Cost					
At 1 January 2019	4,180	1,847	-	-	6,027
IFRS 16 effect	-	-	1,309	5,810	7,119
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	76	-	-	-	76
Additions	502	188	613	470	7,773
Disposals and write offs	(40)	(272)	-	(407)	(719)
At 31 December 2019	4,718	1,763	1,922	5,873	14,276
Accumulated depreciation and impairment					
At 1 January 2019	3,639	1,540	-	-	5,179
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	76	-	-	-	76
Charge for the year	284	102	639	2,383	3,408
Disposals and write offs	(38)	(272)	-	(164)	(474)
At 31 December 2019	3,961	1,370	639	2,219	8,189
Net book value					
Carrying value at 1 January 2019	541	307	-	-	848
At 31 December 2019	757	393	1,283	3,654	6,087

Notes to the unconsolidated financial statements (continued)**19 Intangible assets**

2019	Software HRK'000	Leasehold improvements HRK'000	Investments in progress HRK'000	Total HRK'000
Cost				
At 1 January 2020	15,025	862	264	16,151
Additions	603	38	407	1,048
Disposals	(886)	-	-	(886)
Transfer in use	479	-	(479)	-
At 31 December 2020	15,221	900	192	16,313
Accumulated amortization and impairment				
At 1 January 2020	8,823	264	-	9,087
Charge for the year	1,680	124	-	1,804
Disposals	(766)	-	-	(766)
At 31 December 2020	9,737	388	-	10,125
Carrying value				
Carrying value at 1 January 2020	6,202	598	264	7,064
Carrying value at 31 December 2020	5,484	512	192	6,188

Notes to the unconsolidated financial statements (continued)**19 Intangible assets (continued)**

2019	Software HRK'000	Leasehold improvements HRK'000	Investments in progress HRK'000	Total HRK'000
Cost				
At 1 January 2019	12,038	668	238	12,944
Merger of Hypo Alpe-Adria- Leasing d.o.o. in liquidation	1,118	-	36	1,154
Additions	605	194	1,329	2,128
Disposals	(39)	-	(36)	(75)
Transfer in use	1,303	-	(1,303)	-
At 31 December 2019	15,025	862	264	16,151
Accumulated amortization and impairment				
At 1 January 2019	6,019	184	-	6,203
Merger of Hypo Alpe-Adria- Leasing d.o.o. in liquidation	1,118	-	-	1,118
Charge for the year	1,724	80	-	1,804
Disposals	(38)	-	-	(38)
At 31 December 2019	8,823	264	-	9,087
Carrying value				
Carrying value at 1 January 2019	6,019	484	238	6,741
Carrying value at 31 December 2019	6,202	598	264	7,064

20 Other financial assets

	2020 Nominal amount HRK'000	2020 Fair value HRK'000	2019 Nominal amount HRK'000	2019 Fair value HRK'000
Hedge accounting	-	3,279	-	297

The Company currently applies fair value on hedge foreign exchange exposure arisen from the operating lease contracts (gross lease payments) denominated in EUR by EUR refinancing loans. Under the fair value hedging the gains or losses on the hedged item attributable to the hedged risk are recorded as assets or liabilities at valuation dates against profit or loss.

Notes to the unconsolidated financial statements (continued)**21 Deferred tax asset****Recognised deferred tax**

A summary of deferred tax recognised and the movement in temporary differences on individual items is presented below:

	Assets		Liabilities		Recognized in profit or loss	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
Impairment of receivables	31,249	21,746	-	-	(9,503)	528
Accrued expenses	7,179	4,090	-	-	(3,089)	(188)
Deferred fee and commission income	10,694	9,620	-	-	(1,074)	(262)
Deferred fee and commission expense	-	-	(3,212)	(2,485)	727	463
	<u>49,122</u>	<u>35,456</u>	<u>(3,212)</u>	<u>(2,485)</u>		
Set off	(3,212)	(2,485)	-	-		
Net deferred tax asset	<u>45,910</u>	<u>32,971</u>	<u>-</u>	<u>-</u>		
(Income) / expense for the year					(12,939)	541

Notes to the unconsolidated financial statements (continued)**22 Other assets**

	2020 HRK'000	2019 HRK'000
Other long-term receivables	29,263	33,368
Other short-term receivables	67,394	99,724
Short-term receivables - Special tax on motor vehicles	17,916	18,594
Other receivables related to leases	38,952	69,738
Receivables from customers	8,034	7,709
Receivables from lease	304	433
Receivables from insurance companies	1,666	2,579
Storno VAT receivables from customers	283	449
Advances and prepayments	239	222
Deposits and guarantees given	2,107	1,792
Prepaid expenses related to leasing	22,612	18,521
Receivables from government and other institutions	132	25,697
	<hr/>	<hr/>
	121,508	179,102
Less: Allowance for expected credit losses	(8,753)	(8,434)
	<hr/>	<hr/>
	112,755	170,668
	<hr/>	<hr/>

Movement in impairment allowance on other assets

	2020 HRK'000	2019 HRK'000
At 1 January	8,434	4,835
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation		4,286
Net charge for year (Note 11)	295	1,525
Disposals and write off	0	(2,223)
Foreign exchange differences	24	11
	<hr/>	<hr/>
At 31 December	8,753	8,434
	<hr/>	<hr/>

Notes to the unconsolidated financial statements (continued)**23 Inventory**

	2020 HRK'000	2019 HRK'000
Repossessed and returned objects – operating lease	2,936	7,320
Repossessed and returned objects – finance lease	926	2,006
Other inventory	0	14
Advance to suppliers for finance lease	2,779	24,425
	<hr/>	<hr/>
	6,641	33,765
	<hr/>	<hr/>
Less: Accumulated impairment	(818)	(475)
	<hr/>	<hr/>
	5,823	33,290
	<hr/>	<hr/>

As of 31 December 2019, inventory includes repossessed asset under cancelled leased contracts.

	2020 HRK'000	2019 HRK'000
Inventory movement		
As at 1 January	33,765	49,620
(Decrease) / increase in inventory	(5,479)	(25,092)
Transfer to investment property and other		(3,894)
Advances given to suppliers	(21,645)	13,131
	<hr/>	<hr/>
As at 31 December	6,641	33,765
	<hr/>	<hr/>

Movement in impairment allowance on inventory

	2020 HRK'000	2019 HRK'000
At 1 January	475	511
Net charge for year (Note 11)	754	662
Sale and write off	(416)	(701)
Foreign exchange differences	5	3
	<hr/>	<hr/>
At 31 December	818	475
	<hr/>	<hr/>

Inventory are measured in the currency at the initial exchange rate or activation exchange rate and exchange rate differences arising from revaluation of a currency amount at the end of each month.

Notes to the unconsolidated financial statements (continued)**24 Non-current assets and disposal groups classified as held for sale**

	2020 HRK'000	2019 HRK'000
Non-current assets and disposal groups classified as held for sale	22,802	-
	<u>22,802</u>	<u>-</u>

The Company reclassified one property in the amount of HRK 22,802 thousand, from investment property to non-current assets classified as held for sale. The reclassification was performed on the basis of a published public invitation and selection of the best offer. The Management Board of the Company has made a decision on the selection of the best offers and sales of real estate, and the sale of the same is expected during 2021.

25 Interest-bearing borrowings

	2020 HRK'000	2019 HRK'000
Short-term borrowings	1,217,171	1,173,690
Long-term borrowings	2,227,908	2,798,535
Liability for accrued interest	498	516
	<u>3,445,577</u>	<u>3,972,741</u>

Interest-bearing borrowings include related party borrowings in the amount of HRK 3,372,713 thousand (2019: HRK 3,372,982 thousand), comprising a large number of individual borrowings each on separate terms.

The remaining borrowings in the amount of HRK 72,864 thousand (2019: HRK 599,759 thousand) relate to four third party.

Maturity analysis is shown in Note 30, and the average interest on taken interest bearing loans was 0.80% (2019: 0.88%) shown in Note 33.

26 Guarantee deposits from customers

	2020 HRK'000	2019 HRK'000
Guarantee deposits denominated in foreign currency	1,525	3,678

Guarantee deposits from customers are given by customers as a guarantee for the repayment of liabilities in respect of operating lease contracts. These deposits are non-interest-bearing and are returned to the customer at the end of the contract or on termination.

Notes to the unconsolidated financial statements (continued)**27 Other liabilities**

	2020 HRK '000	2019 HRK '000
Deferred income	44,796	37,242
<i>Advances under operating leases</i>	29,446	21,037
<i>Deferred fee income from operating lease</i>	1,228	1,297
<i>Deferred income from subsidies and interests</i>	14,122	14,908
Provisions	32,497	14,122
<i>Provisions for court cases</i>	15,000	13,458
<i>Provisions for other items</i>	16,888	-
<i>Provisions for employees</i>	531	504
<i>Provisions for off-balance exposure</i>	78	160
Liabilities for advances	7,778	15,639
<i>Advances for finance leases</i>	5,776	6,189
<i>Liabilities for received advances</i>	1,043	93
<i>Advances received for non-active leases</i>	959	9,357
Other liabilities	35,102	34,887
<i>Other liabilities at reserved costs</i>	17,519	16,449
<i>Liabilities to suppliers</i>	7,689	6,344
<i>Liabilities to government for taxes</i>	13	264
<i>Liabilities to employees</i>	2,969	2,971
<i>Other short-term liabilities</i>	6,912	8,859
Lease liabilities	2,664	5,004
Total	122,837	106,894

The provision for other items relates to the provision for restructuring in the amount of HRK 7,500 thousand, the provision for onerous contract in the amount of HRK 5,099 thousand, and the provision for other potential costs based on compensation of clients for incorrectly charged leasing installments in the amount of HRK 4,289 thousand.

In order to align the cost structure with the revenue potential, the Company will start with process of optimization activities and merging and reducing some functions in phases in the period 2021-2023 in order to ensure medium-term sustainability. Consequentially, as at 31 December 2020 the Company recorded HRK 7,500 thousand of restructuring provision.

The largest part of other liabilities at reserved costs relates to accrued costs related to additional services provided by the leasing company to the lessee (eg maintenance, etc.), and for services that have not yet been performed, and the Company reimburses them from the lease installment in the amount of HRK 14,548 thousand (2019: HRK 11,550 thousand).

Notes to the unconsolidated financial statements (continued)**27 Other liabilities (continued)*****Movement in provisions / (reversal) for court cases, other items and off-balance exposure***

	2020. '000 kn	2020. '000 kn	2020. '000 kn	2020. '000 kn	2020. '000 kn	2019. '000 kn	2019. '000 kn	2019. '000 kn	2018. '000 kn
	Court cases	Other items	Provisions for employees	Off-balance exposure	Total	Court cases	Other items	Off-balance exposure	Total
As at 1 January	13,458	-	504	160	14,122	11,820	491	76	12,187
Merger of Hypo Alpe-Adria-Leasing d.o.o. in liquidation	-	-	-	-	-	756	-	-	756
Net charge for year	1,542	16,888	(6)	(83)	18,341	1,082	13	(111)	984
(Used amount)	-	-	33	-	33	-	-	198	198
Foreign exchange differences	-	-	-	1	1	-	-	(3)	(3)
At 31 December	15,000	16,888	531	78	32,497	13,458	504	160	14,122

28 Issued capital

	2020 HRK'000	2019 HRK'000
Issued capital	28,742	28,742

The ultimate parent of the Company is UniCredit SpA.

The Company changed owner as at 1st April 2015. The Company was until 31st March 2015 owned by UniCredit Leasing SpA, and after 1st April 2015, is owned by Zagrebacka Banka dd, which is owned by UniCredit Group.

Notes to the unconsolidated financial statements (continued)

29 Risk management

Exposure to market, liquidity and credit risk arises in the normal course of the Company's business. Risk management policies that relate to short-term and long-term customer financing, cash management and debt and payables can be summarised as follows.

As previously disclosed within the separate Note, COVID-19 outbreak constitutes a significant new event which has significantly impacted the Bank's risk management.

Market risk

Market risk includes currency, interest rate and price risk. The Company is not exposed to price risk at the reporting date as it does not have investments in quoted equity securities or investment funds.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to EUR, as its finance and operating lease receivables and revenues are linked to EUR. Currency risk is managed by funding the receivables with borrowings taken in the same currency. Also, the Company reduces currency gaps by using forward foreign exchange contracts.

The net open foreign exchange position as disclosed in note 31 which is prepared based on the accounting exposures, principally results from property and equipment under operating leases being measured in HRK although funded by EUR denominated borrowings (in accordance with the Company's policy, future operating lease receivables which are linked to EUR are not recognised in the statement of financial position). However, the future cash flows arising from operating lease assets are linked to EUR and accordingly the Company's foreign exchange position is operationally hedged.

In accordance with statutory requirements, the Company is required to record all of its transactions in HRK. However, although its operating revenues are settled in HRK these are linked mainly to EUR and funded with EUR denominated borrowings in order to ensure a significant level of matching of cash flow from the realisation of assets with funding. Assets and liabilities are linked to EUR at predetermined rates which are not necessarily equivalent to spot exchange rates. Other revenues and expenses are mainly denominated and settled in HRK. The Company's market is the domestic Croatian market, where it is standard for transactions (including both finance and operating leases) to be linked to EUR. The Company considers this to be a feature of HRK, which is the currency of the primary economic environment in which the Company operates. Consequently, the management of the Company is of the opinion that HRK represents the functional currency of the Company.

1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A strengthening of HRK by 1% against EUR would result in an increase of profit before tax of HRK 5,957 thousand (2019: increase in profit before tax of HRK 7,085 thousand). A 1% weakening of HRK against EUR would have the opposite effect. These effects do not include the effects of future claims denominated in euro, recorded in off-balance sheet.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Finance leases are initially determined at an interest rate applicable over the whole period of the lease. The lease agreement allows the Company to vary the interest rate applied. These financial assets are funded with borrowings at variable interest rates.

Notes to the unconsolidated financial statements (continued)

29 Risk management (continued)

Interest rate risk (continued)

The Company manages interest rate risk principally through monitoring interest rate gaps. In order to reduce the interest rate gap the Company aligns the maturity with the maturity of funding sources. For instance, properties are funded from long-term funding sources while vehicles are funded from shorter-term funding sources.

Given the fact that lease contracts allow a change in interest rate, the Company reduces the interest gap by regular adjustments in interest rates on the lease contracts in accordance with the periodical changes in interest rates on funding sources.

The Company's financial assets and liabilities are analysed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing as presented in Note 32. The tables are management's estimate of the interest rate risk for the Company as at 31 December 2019 and 31 December 2020 and are not necessarily indicative of the positions at other times but provide some indication of the sensitivities of the Company's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity.

The management of interest rate risk against interest rate gaps is supplemented by monitoring the sensitivity of the Company's future net interest income on all assets and liabilities with variable interest rates (finance and operating leases, loans to customers and interest-bearing borrowings) for a 10% increase and decrease in all indices, assuming all indices are changed at the same time and a constant financial position. An increase in variable interest rate of 10% would result in an decrease of interest income of HRK 234 thousand (2019: HRK 321 thousand), while an increase in variable interest rate would result in a decrease of interest income of HRK 234 thousand (2019: HRK 321 thousand). The difference represents interest rate floors that are contracted in some leases.

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments and for operating needs.

The maturity gap as disclosed in Note 30 and which is calculated based on the accounting exposures, principally results from operating lease assets classified as long term assets (over five years) but funded by borrowings maturing within a period of five years. However, the future cash flows arising from operating lease assets recorded off balance sheet are also generated over a period of five years and accordingly the Company's maturity gap is significantly hedged on the operational level.

In order to manage liquidity risk the Company performs the following:

- 1) forecast of expected and potential cash outflows and cash inflows (projection of cash flow on daily, weekly, monthly, quarterly and annual basis);
- 2) continuous monitoring of liquidity;
- 3) mitigation of potential causes of illiquidity (plans for short-term bridging of liquidity gaps, for instance using approved overdraft facilities in banks).

Notes to the unconsolidated financial statements (continued)**29 Risk management (continued)****Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk from its finance and operating lease activities, i.e. with respect to lease receivables from its lessees. Credit risk refers to the risk that a counterparty will default on its obligations.

In order to manage credit risk, counterparties are analysed and their creditworthiness is determined upon approval of lease agreements. The Company seeks to conclude transactions with customers of sound credit rating. Furthermore, depending on the assessment of risk of each individual lessee, the Company may take additional collateral and guarantees (in addition to the leased asset). In addition, special attention is given to the quality of the leased item and its subsequent marketability. Credit risk is regularly managed in accordance with the Company's and UniCredit Group policies.

The table below shows the maximum balance sheet exposure to credit risk:

	<i>Note</i>	2020 HRK'000	2019 HRK'000
Bank and gyro accounts	13	127,670	244,379
Finance lease receivables, net of unearned finance income	14	2,972,640	3,286,676
Receivables for operating leases	15	7,398	32,451
Other financial assets	20	3,279	297
Advances and prepayments	22	239	222
Other assets	22	112,516	170,446
Current tax prepayment		6,664	11,973
		3,230,406	3,746,444

The maximum off-balance-sheet exposure to credit risk is represented as follows:

	<i>Note</i>	2020 HRK'000	2019 HRK'000
Unearned finance income on finance lease receivables	14	272,740	342,622
Minimum lease payments under operating leases, including unearned finance income	16	841,050	843,006
		1,113,790	1,185,628

Notes to the unconsolidated financial statements (continued)

29 Risk management (continued)

Credit risk (continued)

Impairment and provisioning (applicable since 1 January 2018)

The Company applies the Expected Credit Loss (ECL) model for the calculation of provisions, which is based on a three-level approach (stage) that is calculated in accordance with expected credit losses over a twelve-month period or expected credit losses over the lifetime period.

The Company applies the general three-level model approach, as follows:

- Stage 1 - all new financial assets at initial recognition and instruments that have not significantly deteriorated in credit quality since initial recognition;
- Stage 2 - financial instruments that have significantly deteriorated in credit quality since initial recognition but there is no objective evidence of a credit loss event;
- Stage 3 - defaulted exposures (i.e. credit impaired), there is objective evidence of impairment at the reporting date.

Stages 1 and Stage 2 refer to performing exposures, while Stage 3 refers to non-performing exposures.

For exposures which are not in default status, the loss allowance is equal to:

- 12-month expected credit losses (if, at the reporting date, the credit risk has not increased significantly since initial recognition);
- the lifetime expected credit losses (if, at the reporting date, the credit risk has increased significantly since initial recognition).

For exposures in default status (i.e. credit-impaired exposures) lifetime expected credit losses are recognised.

Definition of default and cure

The borrower is considered as defaulted and therefore Stage 3 in cases when the borrower is 90 days past due or when the borrower is unlikely to pay its credit obligations to the Company, in full, without taking forced collection such as collateral activation.

Financial instrument is re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months, or 12 months in case if forbearance activities were previously made on the defaulted obligor.

Once cured, the decision whether to classify in Stage 2 or Stage 1 depends on the updated credit rating and whether there has been a significant increase in credit risk since initial recognition.

Notes to the unconsolidated financial statements (continued)

29 Risk management (continued)

Credit risk (continued)

Probability of default

Probability of default (PD) is an estimate of the likelihood of not collecting contractual amounts. It provides an estimate of the likelihood that a client will be unable to meet its debt obligations over a particular time horizon.

Exposure at Default

The EAD (Exposure at Default) represents the measure of the exposure at the time of the event of default. The lifetime EAD has been obtained by considering expected changes in the future periods, based on the repayment schedule. For undrawn off-balance exposures, a full usage was assumed.

Loss given default

The LGD (Loss Given Default) represents the percentage of the estimated loss, and thus the expected rate of recovery by type of asset being financed, at the date of occurrence of the default event for the credit exposure.

Grouping financial assets measured on individual and collective basis

Depending on the amount of exposure to a single person or to a group of connected persons, clients are allocated to one of the following portfolios:

- Individually significant exposure – for exposures over HRK 3 million;
- Portfolio of small loans – for exposures below HRK 3 million.

Expected credit losses on defaulted exposures are calculated on an individual basis for “individually significant exposures” in default status. The calculation of specific provisions for defaulted non-significant exposures is based on portfolio estimation, by building homogeneous groups of clients/transactions with similar risk characteristics taking into consideration time in default and in line with developed LGD Best estimate models depending on type of asset.

For all non-defaulted assets the Group calculates the ECL on the collective basis.

Notes to the unconsolidated financial statements (continued)**29 Risk management (continued)****Credit risk (continued)**

The Company monitors concentration of credit risk (excluding cash and cash equivalents and off-balance sheet exposure) by industry sector as well as by client structure. An analysis of concentration of credit risk under operating and finance leases is shown below:

	2020 %	2019 %
Transport	16.6	17.4
Construction, wood industry	11.5	10.3
Automotive industry	9.4	9.1
Machinery, manufacture of basic metals	9.2	7.2
Trade, consumer goods	9.1	6.7
Real estate	8.5	8.1
Shipbuilding	8.2	8.6
Services	7.2	7.0
Private individuals	5.8	5.5
Agriculture and forestry	3.8	9.3
Tourism	2.4	1.9
Utilities (Energy products)	2.2	2.9
Chemical, pharmaceutical and healthcare industry	2.0	2.0
Food and beverages	1.2	1.3
Paper industry	1.1	1.0
Telecommunications and IT	0.7	0.6
Public administration	0.4	0.4
Utilities - Electric industry	0.4	0.4
Textile industry	0.2	0.2
Financial institutions	0.1	0.1
	100.0	100.0
Client structure:	2020	2019
	HRK '000	HRK '000
Corporate entities	2,260,163	2,874,050
Individuals and unincorporated businesses	618,055	567,404
Public sector	305,263	20,175
Allowance for expected credit losses	(203,443)	(142,502)
Total	2,980,038	3,319,127
Overview of significant exposure % of total exposure	2020.	2019.
Group 1	9.6%	9.2%
Group 3	6.9%	6.2%
Group 2	4.0%	4.6%
Group 4	3.3%	3.6%

Notes to the unconsolidated financial statements (continued)**29 Risk management (continued)****Credit risk (continued)**

The Company has an internally developed rating tool, tailored to various categories of counterparty. It combines statistical analysis with risk management judgment and externally available data. The rating tools and the results of their application are reviewed regularly and updated for relevant changes in the environment.

a) Finance leases

2020	Stage 1	Stage 2	Stage 3	Total
Gross finance lease receivables	HRK '000	HRK '000	HRK '000	HRK '000
Performing				
Low	393,788	1,208	-	394,996
Medium	1,193,568	776,837	-	1,970,405
Medium-High	1,948	249,284	-	251,232
Non-performing				
Default	-	-	552,681	552,681
Total	1,589,304	1,027,329	552,681	3,169,314

2019	Stage 1	Stage 2	Stage 3	Total
Gross finance lease receivables	HRK '000	HRK '000	HRK '000	HRK '000
Performing				
Low	108,459	-	-	108,459
Medium	2,080,618	371,898	-	2,452,516
Medium-High	73,321	385,914	-	459,235
Non-performing				
Default	-	-	403,035	403,035
Total	2,262,398	757,812	403,035	3,423,245

Notes to the unconsolidated financial statements (continued)**29 Risk management (continued)***Credit risk (continued)***b) Operating leases****2020**

	Stage 1	Stage 2	Stage 3	Total
Gross receivables from operating leases	HRK '000	HRK '000	HRK '000	HRK '000
Performing				
Low	1,266	77	-	1,342
Medium	3,542	1,453	-	4,995
Medium-High	-	75	-	75
Non-performing				
Default	-	-	7,755	7,755
Total	4,807	1,605	7,755	14,167

2019

	Stage 1	Stage 2	Stage 3	Total
Gross receivables from operating leases	HRK '000	HRK '000	HRK '000	HRK '000
Performing				
Low	1,434	23	-	1,457
Medium	29,689	566	-	30,255
Medium-High	4	655	-	659
Non-performing				
Default	-	-	6,013	6,013
Total	31,127	1,244	6,013	38,384

Notes to the unconsolidated financial statements (continued)

29 Risk management (continued)

Additionally, the Company manages credit risk by monitoring collateral value (including the value of leased assets) in relation to exposure.

Monitoring of the collateral is conducted in a way that collateral and its value are systematically recorded when entering the lease contract. Yearly, an internal expert reassesses the value of real estate collateral and every year reassessment is done by an authorized external specialist.

At 31 December 2020 Company had 21 properties documented as finance lease collateral. The estimates fair value of the properties was HRK 531,084 thousand while the carrying value of the finance leases was HRK 389,819 thousand.

At 31 December 2019 Company had 29 properties documented as finance lease collateral. The estimates fair value of the properties was HRK 563,521 thousand while the carrying value of the finance leases was HRK 442,771 thousand.

It is not practicable to present the fair value of equipment and vehicles held as collateral.

Operational risk

Operational risk implies the risk of unexpected direct or indirect loss resulting from human factors, inadequate procedures and controls, systemic or external events. The Company has adjusted its operational risk management system according to Group requirements and adopted internal procedures and Group process regulations.

The Company is not able to eliminate all operational risks, but can manage risks through continuous monitoring of operational risk related activities carried out within the Risk Control function:

- an analysis of operational risk reports (modifications in risk profile and risk exposure);
- updating internal acts, mechanisms and models for operational risk management and control;
- adoption of plans of activity for operational risk management and control;
- monitoring measures undertaken to reduce or avoid operational risk.

The Company is secured from classical risks such as material damage to property, fire, burglary and theft. Through the operational risks management, the Company controls the reputational risk and thus strives to prevent negative public perception of the Company by its members, business partners, employees or the general public.

Capital management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders,
- to build adequate capital resources, as far as possible, by the retention of profit.

The Board seeks to maintain a balance between higher returns that might be possible with higher levels of interest-bearing borrowings and non-interest bearing guarantee deposits.

The regulator, the Croatian Financial Services Supervisory Agency ("the Agency") imposes a minimum capital requirement of issued share capital HRK 1 million for leasing companies. The Company has met this requirement. There are no other capital requirements specified.

Notes to the unconsolidated financial statements (continued)**30 Maturity analysis**

The remaining contractual maturity of financial assets and liabilities as at 31 December 2020 and as at 31 December 2019 is presented in the tables below. Non-financial items, including property and equipment (including those leased under operating leases) are classified as long term (over 5 years), except for inventory and deferred tax balances which are classified in accordance with expected realisation periods.

2020	Up to one month HRK'000	1-3 months HRK'000	3-12 months HRK'000	1-5 years HRK'000	Over 5 years HRK'000	Total HRK'000
Assets						
Cash and cash equivalents	127,670	-	-	-	-	127,670
Financial assets at fair value through P&L	-	-	-	-	-	-
Finance lease receivables, net of unearned finance income	20,651	144,954	605,037	1,923,869	278,129	2,972,640
Receivables from operating leases	4,571	-	-	-	2,827	7,398
Equipment under operating leases	-	-	-	-	715,360	715,360
Investment property	-	-	-	-	17,621	17,621
Other equipment used by the Company	-	-	-	-	3,665	3,665
Intangible assets	-	-	-	-	6,188	6,188
Other financial assets	-	-	-	-	3,279	3,279
Investment in subsidiary	-	-	-	-	-	-
Deferred tax asset	-	-	-	45,910	-	45,910
Receivables for advanced payments of income tax	-	-	6,664	-	-	6,664
Other assets	32,303	16,501	14,751	28,587	20,613	112,755
Inventory	-	-	-	-	5,823	5,823
Non-current assets and disposal groups classified as held for sale	22,802	-	-	-	-	22,802
Total assets	207,997	161,455	626,452	1,998,366	1,053,505	4,047,775
Liabilities and equity						
Financial liabilities at fair value through P&L	-	-	-	-	-	-
Interest-bearing borrowings	39,527	316,208	861,934	2,081,331	146,577	3,445,577
Guarantee deposits from customers	532	394	517	82	0	1,525
Other liabilities	45,544	-	-	-	77,293	122,837
Equity	-	-	-	-	477,836	477,836
Total liabilities and equity	85,603	316,602	862,451	2,081,413	701,706	4,047,775
Maturity gap	122,394	(155,147)	(235,999)	(83,047)	351,799	-

Notes to the unconsolidated financial statements (continued)**30 Maturity analysis (continued)**

2019	Up to one month HRK'000	1-3 months HRK'000	3-12 months HRK'000	1-5 years HRK'000	Over 5 years HRK'000	Total HRK'000
Assets						
Cash and cash equivalents	244,379	-	-	-	-	244,379
Placements with banks	-	-	-	-	-	-
Financial assets at fair value through P&L	-	-	-	-	-	-
Finance lease receivables, net of unearned finance income	110,454	145,145	738,519	1,960,338	332,222	3,286,678
Receivables from operating leases	29,457	-	-	-	2,994	32,451
Equipment under operating leases	-	-	-	-	699,142	699,142
Investment property	-	-	-	-	32,685	32,685
Other equipment used by the Company	-	-	-	-	6,087	6,087
Intangible assets	-	-	-	-	7,064	7,064
Other financial assets	-	-	-	-	297	297
Investment in subsidiary	-	-	-	-	-	-
Deferred tax asset	-	-	-	32,971	-	32,971
Receivables for advanced payments of income tax	-	-	11,973	-	-	11,973
Other assets	20,901	-	-	-	149,767	170,668
Inventory	-	-	-	-	33,280	33,280
Total assets	405,191	145,145	750,492	1,993,307	1,263,548	4,557,683
Liabilities and equity						
Financial liabilities at fair value through P&L	-	-	-	-	-	-
Interest-bearing borrowings	108,568	191,484	981,995	2,444,199	246,475	3,972,741
Guarantee deposits from customers	813	1,062	1,314	469	-	3,678
Other liabilities	39,081	-	-	-	67,813	106,894
Current income tax liability	-	-	-	-	-	-
Equity	-	-	-	-	474,370	474,370
Total liabilities and equity	148,462	192,546	983,309	2,444,668	788,658	4,557,683
Maturity gap	256,709	(47,421)	(232,817)	(451,361)	474,890	-

Notes to the unconsolidated financial statements (continued)**31 Foreign exchange position**

Based on amounts recognized in the statement of financial position, the Company had the following foreign exchange positions as at 31 December 2020 and 31 December 2019. The Company has a number of contracts which are in domestic currency but are linked to foreign currencies. The domestic currency value of the principal balances and interest payments are therefore determined by movements in foreign currencies. These balances, which have foreign exchange risk, are included as foreign currency in the tables below.

2020

	Croatian kuna HRK HRK'000	Foreign currency and foreign currency linked EUR HRK'000	Total HRK'000
Assets			
Cash and cash equivalents	11,532	116,138	127,670
Placements with banks	748,347	2,224,293	2,972,640
Finance lease receivables, net of unearned finance income	2,985	4,413	7,398
Receivables from operating leases	-	-	-
Equipment under operating leases	715,360	-	715,360
Other equipment (used by the Company)	3,665	-	3,665
Investment property	17,621	-	17,621
Intangible assets	6,188	-	6,188
Other financial assets	3,231	48	3,279
Investment in subsidiary	-	-	-
Deferred tax asset	45,910	-	45,910
Other assets	39,481	73,274	112,755
Inventory	5,823	-	5,823
Receivables for advanced payments of income tax	6,884	-	6,664
Non-current assets and disposal groups classified as held for sale	22,802	-	22,802
Total assets	1,629,609	2,418,166	4,047,775
Liabilities and equity			
Financial liabilities at fair value through P&L	-	-	-
Interest-bearing borrowings	426,076	3,019,501	3,445,577
Guarantee deposits from customers	82	1,443	1,525
Other liabilities	106,554	16,283	122,837
Current tax liability	-	-	-
Equity	477,836		477,836
Total liabilities and equity	1,010,548	3,037,227	4,047,775
Net foreign exchange position			
	619,061	(619,061)	-

Notes to the unconsolidated financial statements (continued)**31 Foreign exchange position (continued)**

2019

	Croatian kuna HRK HRK'000	Foreign currency and foreign currency linked EUR HRK'000	Total HRK'000
Assets			
Cash and cash equivalents	147,565	98,814	244,379
Placements with banks	-	-	-
Finance lease receivables, net of unearned finance income	754,924	2,531,752	3,286,676
Receivables from operating leases	1,636	30,615	32,451
Equipment under operating leases	699,142	-	699,142
Other equipment (used by the Company)	6,087	-	6,087
Investment property	32,685	-	32,685
Intangible assets	7,064	-	7,064
Other financial assets	250	47	297
Investment in subsidiary	-	-	-
Deferred tax asset	32,971	-	32,971
Other assets	59,873	110,795	170,668
Inventory	18,949	14,341	33,290
Receivables for advanced payments of income tax	11,973	-	11,973
Total assets	1,773,319	2,784,364	4,557,683
Liabilities and equity			
Financial liabilities at fair value through P&L	-	-	-
Interest-bearing borrowings	613,379	3,359,362	3,972,741
Guarantee deposits from customers	33	3,645	3,678
Other liabilities	84,256	22,638	106,894
Current tax liability	-	-	-
Equity	474,370	-	474,370
Total liabilities and equity	1,172,038	3,385,645	4,557,683
Net foreign exchange position	601,281	(601,281)	-

Notes to the unconsolidated financial statements (continued)**32 Interest rate repricing, gap analysis and amounts subject to fixed interest rates**

The Company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. The table below is an estimate of the interest rate risk of the Company based on balance-sheet positions as at 31 December 2020 and 31 December 2019 and is not necessarily indicative of the position at other times. The table illustrates the sensitivity of the Company's earnings to movements in interest rates. The result will also be affected by the currency of the assets and liabilities and equity. Cash and cash equivalents, comprising bank and giro accounts, are presented as non-interest-bearing due to the fact that there are not subject to interest rate repricing.

2020	Interest rate repricing					
	Non-interest bearing	Up to 3 months	3-12 months	Over 1 year	Fixed interest	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets						
Cash and cash equivalents	127,670	-	-	-	-	127,670
Finance lease receivables, net of unearned finance income	139,121	744,540	11,418	-	2,077,561	2,972,640
Receivables from operating leases	7,398	-	-	-	-	7,398
Equipment under operating leases	715,360	-	-	-	-	715,360
Investment property	17,621	-	-	-	-	17,621
Other equipment used by the Company	3,665	-	-	-	-	3,665
Intangible assets	6,188	-	-	-	-	6,188
Other financial assets	3,279	-	-	-	-	3,279
Deferred tax asset	45,910	-	-	-	-	45,910
Other assets	112,755	-	-	-	-	112,755
Inventory	5,823	-	-	-	-	5,823
Current tax prepayment	6,664	-	-	-	-	6,664
Non-current assets and disposal groups classified as held for sale	22,802	-	-	-	-	22,802
Total assets	1,214,256	744,540	11,418	-	2,077,561	4,047,775
Liabilities and equity						
Interest-bearing borrowings	498	772,633	63,917	-	2,608,529	3,445,577
Guarantee deposits from customers	1,525	-	-	-	-	1,525
Other liabilities	122,837	-	-	-	-	122,837
Equity	477,836	-	-	-	-	477,836
Total liabilities and equity	602,896	772,633	63,917	-	2,608,529	4,047,775
Interest rate gap	611,560	(28,093)	(52,499)	-	(530,968)	-

Notes to the unconsolidated financial statements (continued)**32 Interest rate repricing, gap analysis and amounts subject to fixed interest rates
(continued)**

2019	Interest rate repricing					
	Non- interest bearing	Up to 3 months	3-12 months	Over 1 year	Fixed interest	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets						
Cash and cash equivalents	244,379	-	-	-	-	244,379
Finance lease receivables, net of unearned finance income	131,587	880,292	29,067	-	2,245,730	3,286,676
Receivables from operating leases	32,451	-	-	-	-	32,451
Equipment under operating leases	699,142	-	-	-	-	699,142
Investment property	32,685	-	-	-	-	32,685
Other equipment used by the Company	6,087	-	-	-	-	6,087
Intangible assets	7,064	-	-	-	-	7,064
Other financial assets	297	-	-	-	-	297
Deferred tax asset	32,971	-	-	-	-	32,971
Other assets	170,668	-	-	-	-	170,668
Inventory	33,290	-	-	-	-	33,290
Current tax prepayment	11,973	-	-	-	-	11,973
Total assets	1,402,594	880,292	29,067	-	2,245,730	4,557,683
Liabilities and equity						
Financial liabilities at fair value through P&L	-	-	-	-	-	-
Interest-bearing borrowings	516	957,581	103,369	-	2,911,275	3,972,741
Guarantee deposits from customers	3,678	-	-	-	-	3,678
Other liabilities	106,894	-	-	-	-	106,894
Current income tax liability	-	-	-	-	-	-
Equity	474,370	-	-	-	-	474,370
Total liabilities and equity	585,458	957,581	103,369	-	2,911,275	4,557,683
Interest rate gap	817,136	(77,289)	(74,302)	-	(665,545)	-

Notes to the unconsolidated financial statements (continued)**33 Average effective interest rates**

The average effective interest rates below represent the weighted average yield on financial instruments during the reporting period.

	2020 Average interest rate %	2019 Average interest rate %
Assets		
Cash and cash equivalents	0.01	0.01
Placements with banks	0.00	0.00
Finance lease receivables, net of unearned finance income	3.45	3.57
Loans to customers	0.00	0.00
Liabilities		
Interest-bearing borrowings	0.80	0.88

34 Fair value of financial assets, liabilities and instruments

Fair value represents the amount at which an asset could be exchanged or a liability settled between informed and willing parties on an arm's length basis.

In 2015, the Company started to apply IFRS 13 "Fair Value Measurement", and accordingly adjusted its accounting policies.

Management board estimates that the carrying amounts of financial assets and financial liabilities in the financial statements are stated at amortized cost what is approximately equal to their fair values, except for those who are specified in the table below.

The fair value of finance lease receivables, net of unearned finance income is calculated based on discounted expected future cash flows. Repayments are assumed to occur at contractual repayment dates. The carrying value of finance lease receivables with variable interest rate is considered to approximate their fair value, excluding the effect of expected future losses.

The estimation of fair value of borrowings represents the discounted amount of future cash flows. Future cash flows are discounted at the current market rate and the fair value significantly down from the carrying value.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Stage 1: quoted price (unadjusted) in an active market;
- Stage 2: inputs other than quoted prices included in Stage 1 that are observable for the financial assets, either directly (for example prices) or indirectly (for example derived from prices);
- Stage 3: inputs for assets are not based on observable market data (for example valuation techniques using significant unobservable inputs).

Notes to the unconsolidated financial statements (continued)**34 Fair value of financial assets, liabilities and instruments (continued)**

	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
31 December 2020				
<i>Other financial assets</i>	-	-	3,279	3,279
31 December 2019				
<i>Financial liabilities at fair value through profit or loss</i>	-	-	297	297

Financial assets accounted for at fair value through profit or loss makes Hedging - accounting of hedging foreign exchange losses on operating lease in EUR currency clause.

	2020 Book value HRK '000	2020 Fair value HRK '000	2019 Book value HRK '000	2019 Fair value HRK '000
Financial assets				
Finance lease receivables	2,972,640	2,972,640	3,286,676	3,286,676
Financial liabilities				
Interest-bearing borrowings	3,445,577	3,445,577	3,972,741	3,972,741

2020	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
Financial assets				
Finance lease receivables	-	-	2,972,640	2,972,640
Financial liabilities				
Interest-bearing borrowings	-	-	3,445,577	3,445,577

2019	Stage 1 HRK'000	Stage 2 HRK'000	Stage 3 HRK'000	Total HRK'000
Financial assets				
Finance lease receivables	-	-	3,286,676	3,286,676
Financial liabilities				
Interest-bearing borrowings	-	-	3,972,741	3,972,741

Notes to the unconsolidated financial statements (continued)**35 Related party transactions**

The Company is a subsidiary of Zagrebačka banka d.d., of which the ultimate parent company is UniCredit SpA, a company incorporated in Italy, from whom, or from the affiliates of whom (collectively "the Group") the Company receives certain consulting and management services as well as financing or to which the Company provides leasing services.

(a) Key transactions with the related parties

Key transactions with the related parties may be summarised as follows:

	Operating income		Operating expenses	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
UniCredit Group companies				
UniCredit S.p.A.	-	192	17,827	18,704
UniCredit Bank Austria AG, Austria	-	-	5,819	7,088
Zagrebačka banka d.d.	8,728	4,020	2,401	2,242
Locat Croatia d.o.o.	574	10,278	159	512
ZABA Partner d.o.o.	76	67	356	621
Zagreb Nekretnine d.o.o.	263	225	43	67
UniCredit Leasing Slovakia a.s.	-	-	219	219
ZB Invest d.o.o.	156	120	-	-
Allib Nekretnine d.o.o.	27	27	-	-
Bacal Alpha nekretnine d.o.o.	25	25	-	-
	9,849	14,954	26,824	29,453

Notes to the unconsolidated financial statements (continued)**35 Related party transactions (continued)****(b) Key management compensation**

The Company's key management comprises the Supervisory and Management Board members and 1 executive director. Remuneration of key management personnel comprises the total gross amount of their compensation including short-term benefits, such as basic pay and bonuses, benefits in kind, obligatory pension benefits and contributions.

	2020 HRK'000	2019 HRK'000
Salaries and other short-term employee benefits	3,932	3,971

In 2020 the Company provided for HRK 644 thousand of bonuses payable to the Management Board. In 2019 bonuses paid to the Management Board amounted to HRK 807 thousand.

In 2020 and 2019 the Company did not provide for remuneration payable to the Supervisory Board.

(c) Key transactions with related parties - receivables and payables

Year end balances arising from key transactions with related party companies may be summarised as follows:

	Receivables		Payables	
	2020 HRK'000	2019 HRK'000	2020 HRK'000	2019 HRK'000
UniCredit Group companies				
UniCredit S.p.a.	657	191	2,152,070	2,678,937
UniCredit Bank Austria AG, Austria	-	-	387,996	458,223
Zagrebačka banka d.d.	128,587	171,242	799,647	170,122
Locat Croatia d.o.o.	-	-	33,000	65,700
ZABA Partner d.o.o.	23	27	-	43
Zagreb Nekretnine d.o.o.	57	41	-	-
UniCredit Leasing Slovakia a.s.	-	-	286	271
ZB Invest d.o.o.	103	118	-	-
	129,427	171,619	3,372,999	3,373,296

Notes to the unconsolidated financial statements (continued)**36 Commitments and contingencies****a) Contingencies**

Contingencies comprise bank guarantees given to customers. The table below presents the total off-balance-sheet exposure:

	2020 HRK '000	2019 HRK '000
Undue contract value under operating lease contracts	400,529	403,093
<i>Future minimum operating lease payments up to one year</i>	176,689	182,009
<i>Future minimum operating lease payments from 1 to 5 years</i>	222,441	220,802
<i>Future minimum operating lease payments from 1 to 5 years</i>	1,399	282
Concluded non-active finance lease contracts	8,624	56,236
Concluded non-active operating lease contracts	1,808	522
Guarantees received	5,026	126,044
<i>UniCredit Bank Austria AG, Austria</i>	5,026	126,044
Received securities and other documents as receivables insurance instruments	11,590,017	11,832,493
Guarantee deposit receivables	-	-
Off-balance-sheet records	12,005,904	12,418,388

The Company had no tax supervisory and are not aware of any possible supervisory.

b) Court cases

The Company is a defendant in several lawsuits that have arisen in the course of the Company's ordinary business. As a matter of prudence, Management has decided to recognize a liability for the potentially negative outcome of lawsuits in the amount of HRK 15,000 thousand (2019: HRK 13,458 thousand). According to the opinion of Management resolution of these law suits will not have any material significant negative impact on financial position of the company.

c) Capital commitments

The Company had no capital commitments as at 31 December 2020, other than in the ordinary course of acquiring assets for pre-arranged leases as disclosed in Notes 15 and 16 (31 December 2019: none).

Notes to the unconsolidated financial statements (continued)

APPENDIX I - Other Legal and Regulatory requirements

Statement of comprehensive income for the period from 1 January 2020 to 31 December 2020

In HRK

Position	Items	Description	Prior year	Current year
1	2	3	4	5
1	2+3+4	INTEREST INCOME	139,042,012.13	130,163,728.62
2		Interest income - finance lease	127,100,792.62	119,142,196.88
3		Interest income - loans	0	0
4		Other interest income	11,941,219.51	10,991,528.74
5	5+7+8	INTEREST EXPENSE	36,858,580.04	35,163,738.48
6		Interest expense on borrowings from domestic banks and financial institutions	2,158,589.12	1,812,271.76
7		Interest expense on borrowings from foreign banks and financial institutions	26,037,083.78	25,193,893.44
8		Other interest expense	8,662,917.11	8,157,573.28
9	1-5	NET INTEREST INCOME	102,183,422.12	94,969,987.14
10		COMMISSION AND FEE INCOME	5,376,672.48	5,298,298.28
11		COMMISSION AND FEE EXPENSE	2,158,402.75	1,992,323.40
12	10-11	NET COMMISSION AND FEE INCOME	3,218,269.73	3,305,974.88
13	14+15+16+17+18+19	OTHER OPERATING INCOME	234,407,207.65	235,544,188.96
14		Income from operating leases	191,599,773.59	172,475,807.91
15		Profit from sale of assets under operating lease	1,942,007.05	2,714,649.63
16		Profit from sale of assets under finance lease	2,055,888.37	2,865,276.79
17		Profit from reimbursable expenses related to lease	0	0
18		Profit from exchange differences	719,357.34	0
19		Other income	38,090,181.30	58,488,454.63
20	21+22+23+24+25+26+27+28+29	OTHER OPERATING EXPENSES	243,989,216.90	266,216,474.83
21		Loss from sale of assets from operating lease	0	0
22		Loss from sale of assets under finance lease	0	0
23		Loss from reimbursable expenses related to lease	287,370.21	828,342.18
24		Loss from exchange differences	0	6,895,966.49
25		Depreciation of assets under operating lease	156,455,852.11	143,289,378.18
26		Depreciation of other assets	5,212,151.60	5,224,092.19
27		Staff expenses	38,801,600.38	38,744,823.63
28		General and administrative expenses	24,469,690.28	42,184,112.53
29		Other expenses	18,662,552.32	29,056,759.63
30	13-20	PROFIT/LOSS FROM OTHER INCOME AND EXPENSES	59,682,009.25	29,671,286.87
31	31+32+33	PROFIT/LOSS BEFORE IMPAIRMENT LOSSES	95,819,682.60	68,604,676.15
32		Impairment losses	38,988,923.18	63,892,352.34
33	31-32	PROFIT/LOSS BEFORE TAX	56,830,769.42	4,712,323.81
34		Income tax	2,216,960.27	1,246,089.09
35	33-34	PROFIT/LOSS AFTER TAX	54,613,799.15	3,466,234.72
36		Attributed to shareholders of the parent company	54,613,799.15	3,466,234.72
37		Attributed to minority interest	0	0
38	39+40+41+42+43+44	OTHER COMPREHENSIVE INCOME	0	0
39		Change in revaluation reserves (property, plant, equipment and intangible assets)	0	0
40		Unrealized gains/ losses on financial assets available for sale	0	0
41		Gains/ losses on hedging instruments in cash flow hedge	0	0
42		Actuarial gains/ losses on defined benefit pension plans	0	0
43		Gains/ losses arising from translation of financial statements on foreign operating activities	0	0
44		Profit tax on other comprehensive income	0	0
45	35+38	TOTAL COMPREHENSIVE INCOME	54,613,799.15	3,466,234.72
46		Attributable to owners of the parent	0	0
47		Attributable to non-controlling interests	0	0
48		RECLASSIFICATION ADJUSTMENTS	0	0

APPENDIX I - Other legal and Regulatory Company's obligations (continued)

Statement of financial position as at 31 December 2020

in HRK

Position	Items	Description	Prior year	Current year
1	2	3	4	5
1	2+3+15+21+24	LONG-TERM ASSETS	2,983,403,918.77	2,831,623,980.44
2		INTANGIBLE ASSETS	7,063,821.23	6,188,093.30
3	4+5+13+14	TANGIBLE ASSETS	737,913,452.97	736,646,750.53
4		Tangible assets in course of construction (investments in progress)	0	0
5	6+...+12	Tangible assets under operating lease	699,141,918.75	715,360,362.02
6		Real estate	0	0
7		Personal Vehicles	508,563,158.38	530,921,893.94
8		Commercial Vehicles	177,960,391.29	150,914,074.94
9		Vessels	1,317,569.64	880,527.34
10		Aircraft	0	0
11		Plants, machines, transportation equipment, office and other equipment	11,300,799.44	32,643,865.80
12		Other	0	0
13		Other tangible assets	6,087,189.28	3,664,996.23
14		Foreclosed assets	32,684,344.94	17,621,393.28
15	16+...+20	LONG-TERM FINANCIAL ASSETS	176,691.48	47,819.58
16		Investments in subsidiaries, associated companies and joint ventures	0	0
17		Investment in long-term securities	47,221.16	47,819.58
18		Given long-term loans	0	0
19		Given long-term deposits	128,370.32	0
20		Other long-term financial assets	0	0
21	22+23	LONG-TERM RECEIVABLES	2,205,279,592.36	2,042,831,294.22
22		Finance lease receivables	2,172,373,012.46	2,014,285,783.90
23		Other long-term receivables	32,906,579.90	28,545,510.32
24		DEFERRED TAX ASSET	32,971,460.73	45,910,022.81
25	26+27+32+33	SHORT-TERM ASSETS	1,669,383,932.51	1,205,488,900.75
26		STOCK	33,289,567.87	28,625,346.20
27	28+...+31	SHORT-TERM RECEIVABLES	1,289,824,924.00	1,044,900,187.24
28		Operating lease receivables	32,451,142.17	7,397,663.14
29		Finance lease receivables	1,130,507,218.11	972,970,620.49
30		Receivables from the Government and other institutions	38,001,155.33	6,969,342.37
31		Other short-term receivables	88,865,408.39	57,562,661.24
32	33+...+37	SHORT-TERM FINANCIAL ASSETS	1,909,450.04	5,315,650.97
33		Investments in subsidiaries, associated companies and joint ventures	0	0
34		Investment in short-term securities	0	0
35		Given short-term loans	0	0
36		Given short-term deposits	0	0
37		Other short-term financial assets	1,909,450.04	5,315,650.97
38		CASH IN HAND AND AT BANK	244,359,100.60	127,647,716.34
39		PREPAYMENTS AND ACCRUED INCOME	21,099,643.47	24,278,238.59
40	1+25+39	TOTAL ASSETS	4,573,886,794.75	4,062,391,119.78
41		Off balance sheet items - assets	13,903,684,987.69	13,323,674,125.78

APPENDIX I - Other legal and Regulatory Company's obligations (continued)

Statement of financial position as at 31 December 2020 (continued)

in HRK

Position	Items	Description	Prior year	Current year
1	2	3	4	5
42	43+45+48	CAPITAL AND RESERVES	474,369,643.28	477,835,878.00
43		Subscribed capital	28,741,800.00	28,741,800.00
44		of which owned by non-residents	0	0
45		Revaluation reserve	24,411.36	24,411.36
46		Other reserves	0	0
47		Retained profit / transferred loss	390,989,632.77	445,603,431.92
48		Profit / Loss of the current year	54,613,799.15	3,466,234.72
49		ACCRUALS	30,670,359.37	50,014,848.00
50	51+57	LONG-TERM LIABILITIES	2,804,701,214.45	2,230,835,371.01
51		Liabilities for long-term borrowings from foreign banks and financial institutions	2,364,457,199.80	1,605,885,562.90
52		Liabilities for long-term borrowings from domestic banks and financial institutions	434,077,783.28	622,022,684.74
53		Advances received for lease contracts	0	0
54		Liabilities for deposits and guarantees on the basis of lease	1,188,752.80	492,611.66
55		Liabilities for issued securities	0	0.00
56		Other long term liabilities	4,977,478.57	2,434,611.71
57		Deferred tax liability	0	0
58	59+64	SHORT TERM LIABILITIES	1,210,799,219.31	1,244,292,686.24
59		Liabilities for borrowings from foreign banks and financial institutions	920,478,709.97	956,628,316.22
60		Liabilities for borrowings from domestic banks and financial institutions	253,727,248.80	261,040,553.59
61		Liabilities for short-term securities	0	0
62		Advances received for lease contracts	15,639,546.97	7,778,188.53
63		Liabilities for deposits and guarantees on the basis of lease	2,488,918.72	1,032,263.08
64		Other short-term liabilities	18,464,794.85	17,813,364.82
65		ACCRUED EXPENSES AND DEFERRED INCOME	53,446,368.34	69,412,336.53
65	42+49+58+65	TOTAL LIABILITIES	4,573,886,794.75	4,082,391,119.76
67		Off balance sheet items - liabilities	13,903,684,987.69	13,323,674,126.78
Appendix				
Position	Items	Description	Current year	Current year
68	69+70	CAPITAL AND RESERVES	474,369,643.28	477,835,878.00
69		Attributed to shareholders of the parent company	474,369,643.28	477,835,878.00
70		Attributed to minority interest		

APPENDIX I - Reconciliation of statement of comprehensive income for the period from 1 January 2020 to 31 December 2020 with supplementary schedule

[illegible]

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APPENDIX I - Reconciliation of statement of financial position as at 31 December 2020 with supplementary schedules (continued)
Liabilities and equity

	Financial statements	Reclassification of advances for leases	Reclassification of accrued income from finance lease management	Reclassification of accrued expenses and income	Reclassification of	Annual financial reports for Agency	IFRS
Interest bearing borrowings	3,445,577,117					3,445,577,117	Liabilities for borrowings from foreign banks and financial institutions
Guarantee deposits from customers	1,524,875					2,227,908,248	Liabilities for long-term borrowings from domestic and foreign banks and financial institutions
Other liabilities	122,836,831	7,778,189	(44,780,816)			(217,668,879)	Liabilities for short-term borrowings (commercial and foreign banks)
						1,524,875	Financial institutions
						492,612	Liabilities for deposits and guarantees on the basis of lease
						1,002,263	Liabilities for long-term deposits and guarantees on the basis of lease
						7,778,189	Liabilities for short-term deposits and guarantees on the basis of lease
						20,247,877	Advances received for lease contracts
							Other short-term deposits
							Deferred tax liability
						59,412,337	Accrued expenses and distribution income
						50,014,848	Accruals
Total liabilities	3,568,413,924					3,584,555,242	Total liabilities
Issued capital	28,741,800					28,741,800	Subscribed capital
Reserves	24,411					24,411	Other reserves
Retained earnings	445,603,432					445,603,432	Retained profits and losses
Profit or loss year	3,488,235					3,488,235	Profit or loss of the current year
Total equity	477,835,878					477,835,878	Capital and reserves
Total liabilities and equity	4,046,249,802		14,616,418			4,062,391,120	Total liabilities and capital and reserves