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Report on the 2020 Compliance Audit of the

Croatian National Bank

This version of the Report on the 2020 Compliance Audit of the Croatian National Bank is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Auditors' report takes precedence over translation.

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I OPINION

The 2020 Compliance Audit of the Croatian National Bank was carried out pursuant to provisions of Articles 11, 12, 13, 19 and 21 of the Act on State Audit Office (Official Gazette 25/2019).

The subject of the audit was compliance of activities, financial transactions and information relating to operating expenses in the area pertaining to administrative operations and the procurement, management and use of real property, movable property and equipment with laws, regulations and internal bylaws that have a material impact on CNB operations.

The compliance audit encompassed the following areas: competence and internal organisation, planning, accounting and reporting, public procurement staff costs, materials, services and administrative expenses and investments in fixed assets.

The audit was planned and carried out with an aim to express an opinion whether CNB operations comply with laws, regulations and internal bylaws. The compliance of operations received an unqualified opinion.

The audit was conducted in the manner and in compliance with the procedures set forth by the framework of auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI) (Official Gazette 17/2020) and the Code of Professional Ethics of State Auditors.

UNQUALIFIED OPINION ON COMPLIANCE OF OPERATIONS

According to the opinion of the State Audit Office, the CNB's 2020 operations complied in all material respects with laws, regulations and internal bylaws referred to in chapter III, THE 2020 AUDIT, Criteria for expression of opinion

Basis for an unqualified opinion on compliance of operations

The opinion on compliance of operations was expressed in accordance with ISSAI 400 Fundamental Principles of Compliance Auditing and associated audit standards. Sufficient and appropriate audit evidence was compiled for the expression of opinion. A review of compliance of operations against the criteria for expression of opinion established no material irregularities.

Emphasis of matter

The State Audit Office would like to draw attention to item (4) of the 2020 Findings, Staff costs, which describes the facts related to basic salary, salary allowances and income of CNB officials and employees. The said facts had no bearing on the opinion expressed.

CNB's obligations

The CNB is obligated to utilise funds purposefully and run its operations in compliance with laws, regulations and internal bylaws.

Obligations of the State Audit Office

Pursuant to International Standards of Supreme Audit Institutions, ISSAI 400, item (13), Principles of Compliance Auditing, the objective of the compliance audit is to express an opinion whether the subject of the audit operated in compliance with the laws, regulations and internal bylaws.

In conducting the audit, state auditors assess the risks of operations not being carried out in accordance with laws, regulations and internal bylaws. Based on the risk assessment they determine the audit approach and procedures and collect sufficient and appropriate audit evidence, ensuring the basis for expressing an opinion. In addition, they check internal controls that ensure compliance of operations.

Pursuant to the provisions of Article 11, paragraph (1) of the Act on the State Audit Office, the State Audit Office is authorised to examine and assess the use of funds by the Croatian National Bank which do not directly pertain to pursuit of objectives and execution of tasks prescribed by the law governing the operations of the Croatian National Bank and the tasks stipulated by other laws, as well as the tasks which the Croatian National Bank executes in compliance with the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks and the European Central Bank.

In addition, in accordance with the provisions of Article 12 of the Act on the State Audit Office, the activities subject to the audit of operations of the Croatian National Bank by an independent external auditor shall not be subject to the audit conducted by the State Audit Office. The State Audit Office is not authorised to examine or assess the fulfilment of the objectives and tasks of the Croatian National Bank prescribed by the law governing the operations of the Croatian National Bank, nor the tasks prescribed by other laws or tasks that the Croatian National Bank executes in compliance with the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks and the European Central Bank.

The State Audit Office expresses its opinion on the compliance of CNB's operations with laws, regulations and internal bylaws, stipulated in chapter III, THE 2020 AUDIT, Criteria for expression of opinion.

II CNB Data

Competence and internal organisation

The Croatian National Bank has legal personality with the rights, obligations and responsibilities determined by the Constitution of the Republic of Croatia (Official Gazette 56/1990, 135/1997, 8/1998 – consolidated text, 113/2000, 124/2000 – consolidated text, 28/2001, 41/2001 – consolidated text, 55/2001 – corrigendum, 76/2010, 85/2010 – consolidated text and 5/2014 – Decision of the Constitutional Court of the Republic of Croatia), Act on the Croatian National bank (Official Gazette 75/2008, 54/2013 and 47/2020) (hereinafter referred to as 'Act on the CNB') and other regulations. The CNB's seat is in Zagreb. The CNB is represented by the Governor. The CNB is not entered in register of companies. The CNB is owned solely by the Republic of Croatia. The Republic of Croatia guarantees for the obligations of the CNB. The capital of the CNB is HRK 2,500,000,000.00.

Pursuant to the provisions of Article 53 of the Constitution of the Republic of Croatia, the CNB is the central bank of the Republic of Croatia. The CNB is autonomous and independent and reports on its operations to the Croatian Parliament. The organisation, objectives, tasks and competence of the CNB are governed by law.

The Act on the CNB governs the status, the position, the objectives, the tasks and the organisation of the CNB, as well as other issues important for the functioning and operation of the CNB, the relationship between the CNB and the Republic of Croatia, credit institutions, international institutions and organisations, and bodies and institutions of the European Union, the tasks and competences of the CNB as of the date of accession of the Republic of Croatia to the European Union, the tasks and competences of the CNB within the framework of close cooperation with the European Central Bank, the tasks and competences of the CNB in cooperation with the Single Resolution Board and the tasks and competences of the CNB after the introduction of the euro as the official currency of the Republic of Croatia.

The objective of the CNB is to maintain price stability.

The CNB carries out the following tasks:

- determining and implementing monetary and foreign exchange policies;
- the holding and management of the foreign reserves of the Republic of Croatia;
- issuing banknotes and coins;
- issuing and withdrawing, that is, revoking authorisations and approvals and adoption of other decisions in accordance with the laws governing the operation of credit institutions and the operation of credit unions, payment service providers, electronic money issuers and payment systems, payment services, electronic money issuance and foreign exchange operations and the operation of authorised foreign exchange offices;
- supervision and oversight in accordance with the laws governing the operation of credit institutions and the operation of credit unions, payment service providers, electronic money issuers and payment systems, payment services and electronic money issuance;
- implementation of resolution powers in accordance with the regulations governing the resolution of credit institutions;
- maintaining accounts of credit institutions and performing payment transactions on those accounts, issuing loans to, and receiving deposit funds from credit institutions;

- regulating and improving the payment system and ensuring its smooth operation;
- performing tasks on behalf of the Republic of Croatia as defined by law;
- the adoption of subordinate legislation on the operations within its competence; and
- macroprudential policy implementation aiming at contributing to the maintenance of financial system stability as a whole and performance of other activities, as provided by law.

The CNB has rights, obligations and responsibilities as set forth in the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks and the European Central Bank for the central banks of the Member States of the European Union with a derogation as specified in Article 139 of the Treaty on the Functioning of the European Union, as well as other directly applicable regulations of the European Union. After the accession of the Republic of Croatia to the European Union, the CNB became an integral part of the European System of Central Banks. In July 2020, the CNB and the European Central Bank established close cooperation and the Croatian kuna was included in the European Exchange Rate Mechanism (ERM II). These are the preconditions for future participation of the Republic of Croatia in the euro area. On 24 June 2020, the European Central Bank adopted the Decision on the establishment of close cooperation between the European Central Bank and Hrvatska Narodna Banka (ECB/2020/31). As of 1 October 2020, the European Central Bank is competent for direct supervision of significant institutions in the Republic of Croatia, joint proceedings for all supervised entities and supervisory oversight of less significant institutions (the CNB is competent for the supervision of less significant institutions).

The organisation of the CNB is governed by the Ordinance on the CNB organisational structure of January 2020 and Ordinance on amendments to the Ordinance on the organisational structure of the CNB of August 2020. The CNB is organised as a single organisational unit striving to accomplish the set objectives and tasks of the central bank as laid down by the Act on the CNB, the CNB Statute and other regulations.

The activities of the CNB include the following: research, preparation of economic analyses and models; analyses of risks to financial stability and macroprudential policy implementation, statistics; monetary policy implementation, foreign exchange management; international cooperation; prudential regulation and supervision; payment services; treasury; controlling and accounting; development of application systems and system support; operative support function (human resources management, technical and general services, procurement and business protocol); communication, expert and administrative support to the CNB management and the Council; internal audit; security; legal affairs; consumer protection monitoring; credit institution resolvability assessment; foreign exchange regulation: succession issues; compliance of operation and informing and training different segments of the public on the role, objectives, competences and activities of the CNB.

The CNB has a Governor, Deputy Governor and Vicegovernors whose responsibilities and powers are regulated by the Act on the CNB, the CNB Statute and the Decision on management and coordination of activities from individual segments of CNB operations.

The CNB has a Chief Economist and a Chief Operating Officer. The Chief Economist manages and organises the work of organisational units that carry out research, model creation, economic analyses, analyses of the risk to financial stability and the activities of macroprudential policy implementation. The Chief Operating Officer manages and

organises the work of organisational units that carry out controlling and accounting activities, application system management and system support, providing support services and security related activities.

The activities and tasks of the CNB are carried out within the organisational units specified in the Ordinance on the organisational structure of the CNB. Pursuant to the provisions of Article 5 of the Ordinance on the organisational structure of the CNB, the CNB is organised into following organisational units: areas, offices and departments. The CNB is organised into 14 areas, 38 departments, 54 divisions and 9 offices. The Visitors' Centre represent a special organisational unit.

The main tasks and activities of areas organised in accordance with the Ordinance on the organisational structure of the CNB are as follows:

- the Research Area monitors and analyses domestic and international economic and financial developments with the aim of establishing an analytical foundation for the implementation of the CNB's monetary and macroprudential policy and providing timely, high-quality information to the public;

- the Statistics Area gathers and processes statistical and administrative data from the reporting units and other institutions and uses this data, in accordance with the applicable international statistical standards and EU regulations, to compile and publish information on particular statistical indicators, as well as entire statistical reports from the area of official statistics in the Republic of Croatia in the part falling under the competence of the Croatian National Bank;

- the Central Banking Operations Area implements the monetary policy and manages international reserves and foreign exchange liquidity;

- the Prudential Regulation and Methodology Area is responsible for the preparation of proposals, the monitoring and issuance of opinions and information on the implementation of prudential regulations and crisis management, the supervision of advanced measurement approaches and models and the receiving of off-site reports and system analyses;

- the Prudential Supervision Area is responsible for the supervision of the operation of credit institutions and the oversight of credit unions, the preparation of proposals and supervision of the implementation of supervisory measures imposed on credit institutions and oversight measures imposed on credit unions and the licensing of credit institutions and credit unions;

- the Expert Supervision and Oversight Area is responsible for the oversight of anti-money laundering and countering of the financing of terrorism in connection with entities subject to the Act on the Prevention of Money Laundering and Terrorist Financing, the implementation of which is overseen by the CNB. It also supervises information systems of credit institutions and oversees information systems of credit unions, electronic money institutions, payment institutions and payment systems;

- the Payment Operations Area performs tasks enabling the smooth operation of the payment system, thus ensuring the safe and efficient use of money as means of payment, as well as the performance of payment transactions;

- the Currency Area is responsible for performing the tasks associated with the planning of the production of currency, ensuring sufficient quantities, currency processing and destruction. It also regulates and manages currency supply and performs the tasks of the National Counterfeit Centre, the National Analysis and Coin National Analysis Centre;

- the International Relations Area is responsible for European cooperation and cooperation with international financial institutions;

- the Controlling and Accounting Area implements a management-oriented controlling concept and compiles the CNB's financial statements in line with legal regulations in order to provide support to decision-making and management and to other end users;
- the Information Technology Area is responsible for application system development and operational tasks;
- the Support Services Area is responsible for human resources management, technical and general services, procurement and business protocol;
- the Communications Area informs the public about the work of the Croatian National Bank and prepares and co-ordinates the Bank's communications activities;
- the Legal Area provides legal assistance to the Bank's management and other organisational units.

In accordance with the provisions of Article 51, paragraph (1) of the Act on the CNB, for the purpose of an ongoing and comprehensive supervision of its operation, internal audit office is organised as an independent organisational unit, directly accountable to the Governor. Internal audit performs its tasks in accordance with the Ordinance on internal audit which lays down the powers, the responsibilities and the tasks of internal audit, including planning, implementation and reporting on performed audits. The Office audits operations and provides advisory services to all organisational levels of the CNB. It assesses the adequacy of the internal control system and reports to competent persons, the Governor and the CNB Council on the performance of the internal controls system. Internal audit reports need to include information, analyses, assessments and comments on business systems and audit subjects.

In addition, the Compliance Office has been established, promoting ethical behaviour of employees, providing education, advice, and monitoring the implementation of the Code of Ethics. The Code of Ethics of November 2016 and September 2020 lays down the ethical values paramount for the CNB's independence, professional and public role. Through its ethical values the CNB promotes responsible behaviour, professionalism, independence, impartiality and transparent conduct of all of its employees. Ethical values comprise ethical rules and principles applied to all CNB employees, including its officials, and, *mutatis mutandis*, all external agents participating in the performance of activities connected with the CNB's tasks. The provisions of the Code apply together with the Act on the CNB, and as regards Bank officials, together with the Act on the Prevention of Conflict of Interests (Official Gazette 26/2011, 12/2012, 126/2012 – Decision of the Constitutional Court of the Republic of Croatia, 48/2013 – consolidated text, 57/2015 and 98/2019)

As at 1 January 2020 the CNB's team counted 676 employees, and as at 31 December 2020 there were 693 employees, of which eight officials. In 2020, 46 new staff members were employed and 29 employees retired or terminated their employment.

In accordance with the provisions of Article 5 of the Rules of operation, the CNB's needs for employment of new staff are established by the Governor in the CNB's Operating plan. It has been set forth in the 2020 Operating plan, within the framework of the Human resources plan that the expected number of employees in professional and managerial positions is expected to reach 705 employees. At the end of the year, this number was 12 employees or 1.7% short of the plan.

According to the provisions of Article 41 of the Act on the CNB, the decision-making bodies of the CNB are the Council of the Croatian National Bank and the Governor of the Croatian National Bank. The CNB Council is competent and responsible for the achievement of the objective and the carrying out of the tasks of the CNB. The CNB

Council defines policies with respect to the activities of the CNB. It is competent for adopting the financial plan of the CNB, adopting the Statute of the CNB, adopting financial statements of the CNB and reporting on the financial condition, degree of price stability achieved and the implementation of the monetary policy. The CNB Council lays down the framework and the measures of the monetary and foreign exchange policies and formulates the strategy and policy for the management of the foreign reserves of the Republic of Croatia, decides on the denominations and features of banknotes and coins and their putting into and withdrawal from circulation, it adopts decisions regarding the operation and supervision of credit institutions: issues and revokes authorisations of credit institutions with head offices in the Republic of Croatia and branches of credit institutions with head offices outside the Republic of Croatia, issues and revokes authorisations for mergers to credit institutions and authorisations for acquiring shares of credit institutions and approves and revokes the approval of appointments of chairpersons and members of credit institutions' management and supervisory boards. The CNB Council also establishes the insolvency of credit institutions and decides on submitting proposals for the initiation of bankruptcy proceedings against credit institutions or on revoking of authorisations of credit institutions;

The setting of CNB interest rates and fees for its services also falls within the competence of the CNB Council, as well as the adoption of subordinate regulations regulation of foreign exchange operations of legal and natural persons and the operation of authorised exchange offices and issuing and revoking authorisations of payment systems and adopting subordinate legislation regulating their operation. The CNB Council takes decisions on matters within its field of activity at its meetings. The CNB Statute specifies the matters within the competence of the Council of the Croatian National Bank which the Council of the Croatian National Bank may delegate to the Governor. The CNB Council consists of eight members, including the Governor, Deputy Governor and six Vicegovernors of the CNB. The Governor of the CNB is the chairperson of the CNB Council.

The Governor, Deputy Governor and Vicegovernors of the CNB are appointed by the Croatian Parliament at the proposal of the Elections, Appointments and Administration Committee, taking into account the opinion of the Finance and Central Budget Committee. The members of the CNB Council are appointed for a term of six years.

According to the provisions of Article 43 of the Act on the CNB, the Governor of the CNB is responsible for implementing the decisions of the Council. The Governor manages and governs the operation of the CNB, organises its functioning, represents and acts for the CNB, adopts internal bylaws on the internal organisation and job classification in the CNB and internal bylaws on the rights, duties and responsibilities of the CNB employees, the Governor adopts internal bylaws on the functioning and development of the CNB information system, appoints and removes from office persons vested with special powers and responsibilities in the CNB. In addition, the Governor specifies the conditions for and methods of exercising the supervision and oversight, the types, time limits, order of and procedure for taking measures with respect to credit institutions, adopts decisions in the process of supervision and oversight of these institutions, adopts subordinate legislation, decisions and internal bylaws on matters within the field of activity of the CNB and decides on other issues falling within the competence of the Governor of the CNB pursuant to the Act on the CNB and other laws and regulations. The Governor of the CNB is authorised to issue instructions for the uniform implementation of subordinate legislation and decisions of the CNB Council. The Governor of the CNB is a member of the General Council of the European Central Bank.

In accordance with the provisions of the CNB Statute, the Governor of the CNB represents and acts for the CNB and the Deputy Governor and Vicegovernors shall do so within the limits of authority granted to them. The Governor may authorise employees of the CNB or other persons to act for the CNB in property and other relations. The documents of the CNB may be signed by other employees of the CNB within the limits of authority granted in accordance with special decisions of the Governor of the CNB. The Governor adopted a Decision on authorised signatories for approving payments arising from financial documents authorising payment of goods, services and works for the purposes of the CNB, for procurement purposes and other activities for which financial documents have been issued.

At the time of the audit, the Governor of the Croatian National Bank was prof. dr. sc. Boris Vujčić, Deputy Governor, dr. sc. Sandra Švaljek, and Vicegovernors, mr. sc. Martina Drvar, dr. sc. Michael Faulend, Bojan Fras, mr. sc. Ivana Jakir Bajo, dr. sc. Roman Šubić and mr. sc. Slavko Tešija.

Planning

The strategic planning is regulated by the Strategic planning methodology, and annual planning by the provisions of the Act on the CNB and the Planning methodology. The provision of Article 59 of the Act on the CNB prescribes that the CNB forecast its income and expenditures in the financial plan that is adopted by 31 December of the current year for the next year by the CNB Council. The provision is specified in more detail in internal bylaws of the CNB.

The CNB Strategy is developed and implemented pursuant to the decisions and other acts of the Governor and the CNB Council in line with the Strategic planning methodology. The Strategic planning methodology was adopted in June 2008. Strategic planning is a process that includes determining the vision, mission and core common values and the drawing up of the CNB's Strategy. The Strategy is a document defining the main strategic objectives for a specific period, specific objectives arising from the main objectives and measures to meet these objectives pursuant to conducted analyses of the current situation, environment, stakeholders and internal situation. The Strategy builds on objectives stipulated in the CNB mission. The process of strategy development for a particular strategic period is initiated by the decision of the Governor. Strategic planning determines the direction of the CNB's development for a period of three years. The Decision on the initiation of strategy development for the period, i.e. of the CNB's Strategy has not yet been adopted.

Annual planning is carried out in accordance with the Planning methodology (consolidated text of May 2004), which contains the Ordinance on planning and instructions for adoption of individual plans. In accordance with the Planning methodology, the Governor issued an order to initiate the planning process for 2020 in December 2019. The Basis and the framework for creating the 2020 Operating plan were set during the planning process, aiming to ensure and allocate funds and human resources necessary for CNB's business processes, i.e. the performance of the CNB's functions in 2020. Following the completion of the planning process, the Governor of the CNB adopted the Decision on the adoption of the 2020 Operating plan on 31 December 2019. The Financial plan which constitutes an integral part of the Operating plan was adopted by the CNB Council at its

meeting held on 31 December 2019, in accordance with the provision of Article 59 of the Act on the CNB.

The CNB 2020 Operating plan consists of regular operations plans (Activities plan, Human resources plan, Procurement plan and Expenses plan), functions plans (Banknote and coin production plan, Kuna lending and deposit interest rates plan, Foreign exchange income and expenses plan) and the Financial plan. Functions plans are not covered by audit procedure.

The 2020 Activities plan is the basic document of the CNB's Operating plan and the foundation for the creation of other plans. It is based on activities plans of organisational units. Planned activities are related to CNB's tasks pursuant to the Act on the CNB, strategic areas and the CNB's strategic objectives.

The 2020 Human resources plan includes the specification of the existing and the expected number of employees by professional and managerial positions and a plan of educational needs.

The CNB's 2020 Procurement plan includes procurement procedures to be carried out pursuant to the Public Procurement Act and procedures not subject to this Act, as well as procedures whose value has been assessed at below HRK 20,000.00. The overall planned value of CNB's procurement procedures totalled HRK 385,418,300.00, excluding value added tax. This figure includes procurement procedures exempt from to the Public Procurement Act, in the amount of HRK 208,542,600.00 (the most important planned procurement procedures not subject to the Public Procurement Act include coin minting, land purchase, the maintenance of the CNB's account and provision of payment services), procedures subject to the Public Procurement Act or Ordinance on procurement, in the amount of HRK 176,476,700.00, and procurements the value of which is below HRK 20,000.00 in the total amount of HRK 399,000.00.

The 2020 Expenses plan includes all expenses planned in 2020, in the total amount of HRK 449,700,000.00, of which HRK 215,300,000.00 are staff costs, HRK 126,200,000.00 are materials, services and administrative expenses, HRK 72,000,000.00 are expenses of printing banknotes and minting coins and HRK 36,200,000.00 are depreciation and amortisation costs.

The income and expenses planned in the CNB's 2020 Financial plan are defined in accordance with the items of income statement which constitutes a part of the CNB's financial statements. One of the items of the Financial plan are operating expenses which are subject to audit procedure. Attached to the Financial plan is also the Plan for fixed assets devised pursuant to the Procurement plan. A report on the execution of the CNB's Financial plan is made in accordance with the provisions on the Ordinance on planning. A report on the execution of the CNB's 2020 Financial plan was submitted in April 2020 pursuant to which operating expenses totalled HRK 419,475,636.00, of which HRK 203,054,755.00 were staff costs, HRK 104,732,928.00 were materials, services and administrative expenses, HRK 69,808,202.00 were expenses for printing banknotes and minting coins and HRK 41,879,751.00 were depreciation and amortisation costs.

Accounting and reporting

The preparation of financial statements, the calculation of profit (loss) and the allocation of profit or the coverage of loss of the CNB for the financial year 2020 was performed pursuant to the provisions of the Act on the CNB (Official Gazette 75/2008 and 54/2013) under which the CNB prepares financial statements for every financial year in accordance with accounting regulations and International Accounting Standards. Starting with the financial year 2021, the preparation of financial statements, the calculation of profit (loss) and the allocation of profit or the coverage of loss of the CNB shall be performed pursuant to the provisions of the Act on Amendments to the Act on the CNB (Official Gazette 47/2020), that is, the CNB will continue to prepare financial statements in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ESB/2016/34).

The CNB has Accounting policies and Accounting procedures in place. Accounting policies comprise principles, bases, rules and procedures as a basis for reporting assets, liabilities, capital, income and expenses in business books and financial statements of the CNB. Accounting policies are based on the provisions of the Act on the CNB, International Financial Reporting Standards determined by the European Commission and published in the Official Journal of the European Union and the Accounting Act applied as appropriate. Business books comprise: the log, the general ledger and subsidiary ledgers. Financial statements comprise: the statement of financial position, the statement of comprehensive income, statement of changes in equity and statement of cash flow, and notes.

Accounting procedures refer to methods and procedures by which business events are identified and recorded. Accounting procedures also comprise control procedures ensuring the accuracy and reliability of accounting records. In addition, the CNB has in place a prescribed chart of accounts.

– Reporting

The CNB prepares financial statements in accordance with the International Financial Reporting Standards, which comprise the International Accounting Standards (IAS), together with the related Amendments and Interpretations, and the International Financial Reporting Standards (IFRS), together with the related Amendments and Interpretations, as adopted by the European Commission, and published in the Official Journal of the European Union (following the accession of the Republic of Croatia to the European Union on 1 July 2013).

The Annual financial statements for 2020 were prepared, in particular: the statement of financial position, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year ended 31 December 2020 and notes with financial statements. The Annual financial statements for 2020 were adopted at the CNB Council meeting held on 12 April 2021. The CNB prepares and publishes on its website the annual operating report, which, among other information, contains financial statements together with the independent auditor's report.

In accordance with the provision of Article 62, paragraph (1) of the Act on the CNB, the CNB, on a semi-annual basis, informs the Croatian Parliament about its financial condition, the level of price stability achieved and monetary policy implementation. Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and

the Implementation of Monetary Policy for the first half of 2020 was submitted to the Croatian Parliament on 3 December 2020, while the Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and the Implementation of Monetary Policy for the second half of 2020 was submitted to the Croatian Parliament on 15 May 2020.

In accordance with the provision of Article 62, paragraph (2) of the Act on the CNB, the CNB, on a monthly basis and at the latest within ten working days from the end of the previous month, prepares, draws up and submits to the Ministry of Finance its summary balance sheet as at the last day of the month concerned.

The CNB's 2019 Annual report was submitted to the Croatian Parliament on 11 September 2020 with a letter of the Governor addressed to each Member of the Parliament. The Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and the Implementation of Monetary Policy and the 2019 Annual Report have been published on the CNB website.

– External audit of financial statements for 2020

In accordance with the provisions of Article 61 of the Act on the CNB, the prepared financial statements and the overall operation of the Croatian National Bank are audited by independent external auditors in accordance with audit regulations and the International Auditing Standards. The decision on the selection of the auditor to audit the financial statements of the CNB is made by the Finance and Central Budget Committee of the Croatian Parliament on the proposal of the CNB Council. In May 2019, at the proposal of the CNB Council, the Finance and Central Budget Committee of the Croatian Parliament adopted the Decision on the selection of the audit firm to perform the audit of the CNB's financial statements.

The audit of the CNB's financial statements for 2020 included the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement on Cash Flows and Notes. In the opinion of the independent auditor, the financial statements give a true and fair view of the financial position of the CNB as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

The Audit firm reported the key issues arising from their audit to the Audit Committee. In 2015, the Governor adopted the Decision on the establishment of the Audit Committee in December 2015. The Audit Committee consists of three members of which one is the chairperson. The Governor adopted decisions to appoint the chairperson and the members of the Audit Committee for a period of three years.

The tasks of the Audit Committee are to give recommendations regarding those tasks to the CNB Council as regards the selection of the external auditor, supervision of the audit of the annual financial statements in accordance with audit standards, supervision of the examination of semi-annual financial statements in accordance with audit standards and supervision of the process of selecting the external auditor for the performance of ancillary, non-audit services, as well as the assessment of the independence, objectivity and efficiency of external auditors. The Audit Committee notifies the CNB Council of its positions, opinions and recommendations. The Audit Committee held four meetings in 2020.

Public procurement

The CNB's public procurement proceedings comply with the provisions of the Public Procurement Act (Official Gazette 120/2016), Ordinance on procurement of January 2019 and other implementing regulations and internal bylaws. The Ordinance on procurement prescribes procurement procedure be conducted for subject-matter of procurement the assessed value of which is below HRK 200,000.00 for goods and services and below HRK 500,000.00 for works.

The CNB Procurement plan for 2020 forecast procurement of goods and services in the total estimated value of HRK 176,476,700. As a result of 19 amendments to the Procurement plan the estimated procurement value increased to HRK 189,469,450.00. As compared to the initial plan, the Procurement plan that includes all amendments increased by HRK 12,992,750.00 or 7.4%.

The CNB concluded certain procurement agreements through the central procurement body. Namely, as of 2013 the CNB is a member of the Eurosystem Procurement Coordination Office (hereinafter referred to as 'EPCO'), established in 2008 by the Governing Council of the European Central Bank to lay down the framework for joint procurement activities for the benefit of the central banks. EPCO's Governing Council consists of one member from each national central bank. Central banks adopt coordinated requirements and standards for goods and services serving as the basis for joint procurement of goods and services with an aim of obtaining more favourable conditions in accordance with the principles of cost efficiency and effectiveness. Within the framework of joint procurements under the umbrella of EPCO as the central procurement body, in 2020 the CNB concluded agreements with suppliers on the procurement of personal computers, software packages, on access to expert publications and use of software products for monitoring and analysis of financial data. EUR 457,980.00 were paid pursuant to eight agreements for which EPCO as the central procurement body completed the procurement procedure for the benefit of the CNB, of which the highest amounts were paid pursuant to the agreement for monitoring and analysis of financial data, totalling EUR 180,922.00, and pursuant to the agreement for the procurement of personal computers in the amount of EUR 77,668.00.

Pursuant to the Statistical report on public procurement, based on 25 open public procurement procedures and ten negotiated procedures without prior publication, 31 agreement was concluded in 2020 on the procurement of goods, works and services in the overall value of HRK 67,145,833.00, excluding value added tax, three, worth EUR 8,711,644.00, and one, worth USD 533,618.00. The selection criterion in most conducted public procurement procedure was the criterion of the most economically advantageous tender. The value of simple purchases of goods, works and services reached HRK 11,590,906.00, excluding value added tax.

The audit of the CNB encompassed 21 open public procurement procedures, eight negotiated procedures without prior publication, 32 simple purchases pursuant to which the purchase of goods, works and services was contracted in the amount of HRK 70,971,286.00, excluding value added tax, two agreements were concluded on the use of services, worth EUR 278,117.00, and one agreement on the use of services worth USD 533,618.00.

Operating expenses

The CNB's Financial plan for 2020 forecast total operating expenses of HRK 449,700,000.00. This includes staff costs of HRK 215,300,000.00, materials, services and administrative expenses of HRK 126,200,000.00, costs of production of banknotes and coins of HRK 72,000,000.00 and amortisation and depreciation costs of HRK 36,200,000.00.

Table 1 shows the structure of planned and realised operating expenses

Table 1

Planned and realised operating expenses

in HRK

No	Description	Realised in 2019	Planned in 2020	Realised in 2020	Index (5/4)	Index (5/3)
1	2	3	4	5	6	7
I	Staff costs	186,406,708.00	215,300,000.00	203,054,755.00	94.3	108.9
II	Materials, services and administrative expenses	104,857,760.00	126,200,000.00	104,732,928.00	83.0	100.0
III	Costs of production of banknotes and coins of Croatian kuna	68,001,740.00	72,000,000.00	69,808,202.00	97.0	102.7
IV	Depreciation and amortisation costs	35,984,473.00	36,200,000.00	41,879,751.00	115.7	116.4
Total		395,250,681.00	449,700,000.00	419,475,636.00	93.3	106.1

Total regular operating expenses in 2020 include staff costs of HRK 203,054,755.00, materials, services and administrative expenses of HRK 104,732,928.00, costs of production of banknotes and coins of HRK 69,808,202.00 and depreciation and amortisation costs of HRK 41,879,751.00. In terms of value, the most significant amounts were staff costs, of HRK 203,054,755.00, accounting for 48.4% and of materials, services and administrative expenses, of HRK 104,732,928.00, accounting for 25.0%. Pursuant to the Act on the State Audit Office, the costs of production of banknotes and coins are not subject to audit.

– Staff costs

The staff costs planned in the CNB's 2020 Operating plan, within the framework of the 2020 Expenses plan totalled HRK 215,300,000.00. According to data from the business books, staff costs totalled HRK 203,054,755.00, up HRK 16,648,047.00 or 8.9% on the previous year.

Staff costs refer to gross salaries of HRK 157,416,591.00, contributions on salaries and other income of HRK 25,679,604.00 and other gross staff income in the amount of HRK 19,958,560.00.

Table 2 shows data on of planned and realised staff costs.

Table 2

Staff costs

in HRK

No.	Description	Realised in 2019	Planned in 2020	Realised in 2020	Index (5/4)	Index (5/3)
1	2	3	4	5	6	7
1	Gross salaries	141,096,073.00	165,060,000.00	157,416,591.00	95.4	111.6
1.1	Salaries	137,851,543.00	157,884,000.00	151,305,259.00	95.0	109.8
1.2	Employee promotions	1,281,284.00	1,406,000.00	1,316,616.00	93.6	102.8
1.3	One-off monetary rewards	1,773,246.00	4,170,000.00	3,282,276.00	78.7	185.1
1.4	Extraordinary occasional payments	190,000.00	1,600,000.00	1,512,440.00	94.5	796.0
2	Contributions on salaries and other income	23,912,834.00	29,071,000.00	25,679,604.00	88.3	107.4
3	Other gross income of employees	21,397,801.00	21,169,000.00	19,958,560.00	94.3	93.3
Total		186,406,708.00	215,300,000.00	203,054,755.00	94.3	108.9

In terms of value, the most significant amount of staff costs, of HRK 157,416,591.00 was the amount of gross salaries, accounting for 77.5% of the total, up HRK 16,320,518.00 on the previous year. The reason for the increase in staff costs is, among other things the increase in the number of employees, the increase in the value of the point to which the salaries of CNB employees are indexed per working hour and the increase in extraordinary occasional payments.

Gross salaries in the amount of HRK 157,416,591.00 include salaries, in the amount of HRK 151,305,259.00, expenses for promotion of employees, in the amount of HRK 1,316,616.00, one-off monetary rewards, in the amount of HRK 3,282,276.00, and extraordinary occasional payments, in the amount HRK 1,512,440.00. In the amount of gross salaries, net salaries made up HRK 103,984,230.00, contributions on salaries accounted for HRK 30,783,220.00, and taxes and surtaxes for HRK 22,649,141.00.

Contributions on salaries and other income of HRK 25,679,604.00 refer to contributions on salaries at prescribed rates, in the amount of HRK 23,896,203.00, and contributions on other staff gross income in excess of deductibles, in the amount of HRK 1,783,401.00.

Expenses on other gross income totalled HRK 19,958,560.00 (contributions from gross income totalled HRK 2,154,643.00 and taxes and surtaxes HRK 2,412,411.00. Other gross income refers to subsidies for housing loans, additional health insurance premiums, transport allowance, jubilee awards, severance payments and other income.

According to the provisions of Article 52, paragraph (3) of the Act on the CNB, the Governor of the CNB adopts internal bylaws, prescribing the terms and conditions of employment and work of the employees in accordance with the Labour Act (Official Gazette 93/2014, 127/2019 and 98/2019 and other regulations. In order to regulate labour

terms and conditions, the Governor adopted the Rules of operation, the Ordinance on salaries and other income in the CNB (hereinafter referred to as Ordinance on salaries) Ordinance on professional and other positions and positions of officials in the CNB, the Ordinance on the management of job performance of CNB employees and other general bylaws.

The basis and criteria for the calculation of salaries, the manner of calculation and payment, the cases and conditions for payment of salary compensations are laid down by the provisions of the Ordinance on salaries of July 2020, as adopted by the Governor of the CNB pursuant to the provisions of Articles 10 and 21 of the CNB Statute.

Employees are entitled to salaries for their work and in case of temporary inability to work they are entitled to salary compensation. Pursuant to the provisions of the Ordinance on salaries, CNB employees are also entitled to other income as laid down by the Ordinance on salaries, other regulations or their contract of employment. Employee salaries, salary compensation and other income of employees are laid down in the contract of employment and where the contract of employment does not regulate rights related to salaries, salary compensation or other income such income is subject to the provisions of the Ordinance on salaries.

Employee salaries consist of the basic salary component and various allowances. Employees are entitled to compensation of salary for temporary inability to work, when due to justified reasons as specified by law, Ordinance on salaries or other regulations they are absent from work or prevented to work. Other income of staff as laid down by the Ordinance on salaries and decisions of the Governor includes one-off holiday allowance, payments for special work achievements, meal allowance, severance payments, jubilee awards, gifts for children of employees, extraordinary financial assistance, increased business travel allowance, compensation of costs of transportation to/from work, etc. The calculation and payment of taxes and contributions from and on salaries of employees were made in accordance with regulations.

The average monthly salary includes salaries paid to staff members as basic salary and allowances and salary compensation paid by the CNB. The average gross salary paid in December 2020 for 687 employees totalled HRK 18.969,00, which was HRK 12,924.00 in net terms, while the average gross salary for December 2020 for eight officials totalled HRK 67,636.00, which was HRK 43,189.00 in net terms. The highest paid gross salary for December 2020 for a full volume of hours of work totalled HRK 71,954.71, and the lowest totalled HRK 63,523.54, while the highest gross salary paid out to other employees in December 2020 for a full volume of hours of work was HRK 55.375,69, and the lowest gross salary totalled HRK 8,153.29.

– Basic salary

Basic salary is determined based on the complexity of activities within the framework of a particular position. Staff members are entitled the basic salary for full-time work. It is calculated by multiplying the number of points for performance of individual activities with the number of working hours and the value of the point.

The Ordinance on professional and other positions and positions of officials in the CNB of 1 January 2020 laid down job descriptions for three categories of positions, namely for professional positions, other positions and CNB officials. Professional positions include

managing, advisory, associate and officers' positions. Other positions are not characteristic for CNB operations and include vocational positions.

The positions held by CNB officials are the Governor, Deputy Governor and Vicegovernors of the CNB. Job descriptions include descriptions of typical responsibilities, degrees of independence, knowledge, skills and abilities and the necessary formal requirements.

The Ordinance on salaries specifies the range of points allocated to specific positions (for instance, a department director may get points ranging from 865 to 1040). The points for all categories of positions range from 205 to 2327 points.

The number of points for professional positions in four offices and ten areas is additionally increased (for example, depending on the organisational unit, the points allocated to a department director may vary within the range of 865 to 1190). The employment contract specifies the number of points allocated to the employee within the band envisaged for the particular position by the Ordinance on salaries.

The value of the point is determined by the Decision on the value of the point by working hour for calculating the base gross salary of CNB employees that is applied from 1 January 2020. In accordance with the said Decision, the value of the point by working hour for calculating the base gross salary increased by 2.0% from the previous period. The said increase of the point value was envisaged by the CNB's Operating plan for 2020. In addition to the said increase, the CNB's Operating plan for 2020 planned for a 2.0% increase in point value in June and a 2.0% increase in October 2020, which was not realised.

The costs of employee promotion were HRK 1,316,616.00. In the course of 2020, the basic salary of 213 employees increased due to promotion. Pursuant to the provisions of the Ordinance on salaries, the basic salary may be increased within the range of points allocated for the same position provided at least two criteria of the following have been met: progress in results stemming from work experience regarding activities in the position that the employee holds, permanent expansion of the scope of activities of the same complexity and/or continued acquisition and proven application of new knowledge and skills in the performance of an employee's activities. In addition, basic salary may be increased as a result of the promotion of the employee to a higher position in case of the rise in complexity of the activities performed by the employee. An increase in salary is possible only if the employee's performance assessment has been at least an effective work performance or higher.

Salary compensations for the period of temporary inability to work reached HRK 2,178,231.00. Salary compensation for periods of temporary inability for work reimbursed by the CNB during sick leave in accordance with regulations on health insurance (sick leave up to 42 days) is paid in the amount of 95.0% of the base, which is the average salary of the employee in the six months preceding the temporary inability to work.

Where all the conditions are met, the basic salary of an employee is increased by salary allowances for overtime work, length of service rendered, comparative value of salaries, difficult working conditions (hardship allowance) and activities of team leaders.

The allowance for overtime work totalled HRK 1,119,182.00 for 8 804 overtime hours worked. Overtime work is governed by the Labour act and the Ordinance on salaries. In

accordance with the provisions of Article 13 of the Ordinance on salaries, the basic salary of employees expressed in points is increased by 50.0% for overtime work, by 30.0% for night work, by 100.0% for work during holidays or non-working days and by 35.0% for work on Sundays. Allowances are cumulated when there are more than one conditions met.

Employees are obligated to work overtime subject to a written request but not more than 10 hours per week, in case of *force majeure*, exceptional increase in the volume of work and other similar cases of urgent need. Overtime work of an employee may not exceed 180 per annum. The Governor designated persons authorised to decide on overtime work by the Decision on working hours in the CNB. Authorised persons submitted requests for overtime work of individual employees prior to the commencement of such work, specifying the reasons for overtime work. The requests describe the activities performed and specify the time when overtime work took place. The volume of overtime working hours was in line with the prescribed maximum, i.e. ten hours per week or 180 hours per annum.

The allowance for the length of service totalled HRK 12,654,499.00. Pursuant to the provisions of Article 10 of the Ordinance on salaries, the basic salary of employees laid down in the contract of employment is increased by 0.5% of the basic salary for each completed year of service.

The allowance based on the comparative value of salaries totalled HRK 913,562.00. Pursuant to the provisions of Article 14 of the Ordinance on salaries, this is an increase in basic salary for individual employees of certain organisational units from the position of chief staff associate upwards where there are justified reasons to align the level of their salaries with the salaries received at the same or similar positions by employees of commercial banks, other financial institutions or undertakings. The allowance may amount to 20.0% of the basic salary expressed in points. A reasoned proposal, containing the name of the organisational unit, the position of the employee and the percentage of the proposed increase in salary is submitted by the competent manager taking into account the following criteria: the significance of specific activities carried out by the employee and the need to keep the employee or recruit the employee to the CNB. Pursuant to such proposals the Governor reached the Decision on salary allowance based on the comparative value of salaries in September 2020, which replaced the previous decision. The amount of allowance was determined for 39 employees, ranging from 4.5% to 20.0% of the basic salary.

The allowance for difficult working conditions (hardship allowance) was realised by 33 employees, totalling HRK 292,979.00, while the allowance for work in shifts was realised by 40 employees, in the amount of HRK 371,120.00. According to the provisions of Article 11, Ordinance on salaries, work under difficult working conditions is work in shifts requiring psychological and physical strength (management and safeguarding of vault keys during 24 hours, operating machine while counting, sorting and shredding banknotes, disposal of shredded banknotes, opening, closing and operation of the payment system and handling cash and other valuables). The allowance is set at 10.0% of the basic salary of the employee expressed in the number of points. In case of multiple difficult working conditions, the hardship allowance may be increased to a maximum of 20.0%. The right to allowance is realised if it has been established by the decision of the Governor or contract of employment with the individual employee that the employee works under difficult conditions.

The allowance for team leaders was realised in the amount of HRK 124,425.00. Employees working as team leaders with the Prudential Regulation and Methodology Area, the Prudential Supervision Area and the Expert Supervision and Oversight Area are entitled to a salary allowance while carrying out these activities. In 2019, the Governor adopted a Decision based on which team leaders are entitled to salary allowance of 50 points. In 2020, nine employees realised the salary allowance for team leaders.

Other income of employees paid out within the framework of the basic salary were payments for extraordinary work performance and extraordinary occasional payments.

Payments for extraordinary work performance (bonus or one-off monetary reward) were planned in the total amount of HRK 4,170,000.00. One-off monetary rewards were awarded to 331 employee, in the total amount of HRK 3,282,276.00. Monetary rewards paid to employees ranged from HRK 400.00 to HRK 41,123.00, net, per employee.

Pursuant to the provisions of Article 22 of the Ordinance on salaries, when an employee performs activities whose scope and qualities exceed ordinary work results, the employee may be paid out a bonus or one-off monetary reward. A bonus may also be paid out as an annual reward for extraordinary work performance in the past year. One-off monetary reward may be paid out for successful performance of tasks outside the framework of an employee's regular activities and/or successful performance of tasks relating to short-term increased scope of activities. The amount of bonus or one-off monetary reward to be paid out to employees pursuant to the provision of Article 22, paragraph (4) of the Ordinance on salaries is determined by the Governor, Deputy Governor, competent Vicegovernor, Chief Economist or Chief Operating Officer within the framework of the budget forecast for this purpose. One-off monetary rewards were paid out based on proposals describing successfully completed tasks relating to short-term increased scope of activity.

Extraordinary occasional payments totalled HRK 1,512,440.00. Extraordinary occasional payments were realised by 263 employees in the amount ranging from HRK 860.00 to HRK 10,734.00 Pursuant to the provisions of Article 34 of the Ordinance on salaries, in case of good operating results the Governor may reach a decision on the extraordinary occasional payment in accordance with the basis laid down in that decision and in the case of performance of activities of special interest to the CNB the Governor may reach a decision on the extraordinary occasional payment in the amount laid down in that decision. Payments were made based on the proposal for extraordinary occasional payments for the performance of activities of special interest to the CNB.

Pursuant to the provisions of Article 16 of the Ordinance on salaries, CNB employees older than 60 years of age or who are five years short of being eligible for full old age pension, may be assigned to other activities, retaining their salary, if this is more favourable for the employee. Contracts of employment were concluded with six employees who were assigned to other jobs, different from their previous jobs, retaining the number of points to which their salary is indexed for the activities they previously performed.

Expenses for salaries and other income of officials (Governor, Deputy Governor and Vicegovernor) were HRK 9,092,377.00, of which gross salaries were HRK 7,813,437.00 and contributions on gross salaries HRK 1,278,940.00. Pursuant to the provision of Article 52, paragraph (4) of the Act on the CNB, the rights and obligations of the Governor, Deputy Governor and Vicegovernors of the CNB arising from their employment are governed by a contract of employment, the Act on the CNB and the Statute of the CNB.

Pursuant to the provisions of Article 67 of the Act on the CNB, during their term of office, the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank shall be entitled to a salary and to material and other rights arising from their employment pursuant to internal bylaws of the CNB. The Act on the Prevention of Conflict of Interest in the Exercise of Public Office shall apply to the rights and obligations of the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank which are not set forth by the Act on the CNB or the Statute of the CNB. Pursuant to the provisions of Article 23 of the Statute of the CNB, salaries of the Governor, Deputy Governor and Vicegovernors shall be stipulated by the internal bylaw governing the salaries of employees of the CNB. Upon the termination of their term in office the members of the CNB Council may continue to work with the CNB as advisers or senior advisers with the Office of the Governor or in other positions of appropriate complexity in accordance with internal bylaws governing professional and other occupations in the CNB.

Should a member of the CNB Council not continue to work with the CNB, he/she shall be entitled to compensation equivalent to his/her last salary received in the month prior to termination of the term of office until his/her new employment, but for no longer than one year following the termination of the term of office. No payments for officials whose term in office was terminated were made in 2020.

In 2020, officials realised the basic salary, the allowance for length of service rendered, salary compensation during temporary inability to work and other income laid down by the provisions of the Ordinance on salaries and decisions of the Governor (life insurance premiums, meal allowance, premiums for voluntary pension insurance - III pillar, occasional gifts, gifts for children, etc.).

– Other gross income of employees

According to data from the business books other gross income of employees totalled HRK 19,958,560.00, up HRK 1,439,241.00 or 6.7% on the previous year.

Table 3 shows data on planned and realised other gross income

Table 3

Other gross income of employees

in HRK

No.	Description	Realised in 2019	Planned in 2020	Realised in 2020	Index(5/4)	Index (5/3)
1	2	3	4	5	6	7
1	Jubilee award	1,550,232.00	1,076,000.00	1,032,967.00	96.0	66.6
2	Miscellaneous allowances	347,817.00	340,000.00	596,003.00	175.3	171.4
3	Severance	701,094.00	860,000.00	1,029,198.00	119.7	146.8
4	Gifts for children	430,789.00	410,000.00	428,347.00	104.5	99.4
5	Gifts to employees and occasional benefits	487,825.00	509,000.00	527,564.00	103.6	108.1
6	Use of company cars, parking places and garages	1,744,491.00	2,000,000.00	1,944,737.00	97.2	111.5
7	Subsidies for housing loans	4,082,927.00	3,354,000.00	3,220,827.00	96.0	78.9
8	Subvention of meal	3,510,089.00	2,974,000.00	2,203,822.00	74.1	62.8

9	Transportation to/from work	3,524,648.00	3,704,000.00	3,924,409.00	106.0	111.3
10	Compensation for sick leave above Health Fund's maximum	890,349.00	900,000.00	843,793.00	93.8	94.8
11	Life insurance premiums	874,284.00	1,300,000.00	989,814.00	76.1	113.2
12	Health and life insurance premiums	509,272.00	520,000.00	480,920.00	92.5	94.4
13	Expenses related to sport and recreation	244,345.00	275,000.00	56,737.00	20.6	23.2
14	Pension Fund - III pillar	2,186,490.00	2,268,000.00	2,317,360.00	102.2	106.0
15	Other city transportation cost on business trip	209,808.00	362,000.00	46,291.00	12.8	22.1
16	Other income	103,341.00	317,000.00	315,771.00	99.6	305.6
Total		21,397,801.00	21,169,000.00	19,958,560.00	94.3	93.3

In terms of value, a significant share in other gross income by amount was accounted for by the costs of transportation of employees to/from work, in the amount of HRK 3,924,409.00, or accounting for 19.7% of the total, the expenses for subsidies for housing loans, in the amount of HRK 3,220,827.00 or accounting for 16.1% of the total and the expenses for Pension Fund - III pillar, in the amount of HRK 2,317,360.00 or accounting for 11.6% of the total.

– Jubilee awards

The costs of jubilee awards totalled HRK 1,032,967.00. Pursuant to the provisions of Article 26 of the Ordinance on salaries, employees who have been employed with the CNB for a specified number of years are entitled to a jubilee award. The right to the award is acquired after ten years of uninterrupted work with the CNB in the amount equal to 50.0% of the average monthly salary paid out in the CNB in the three months preceding the month in which the right to a jubilee award was acquired; 60.0% after 15 years of uninterrupted service, 70.0% after 20 years, 80.0% after 25 years, 90.0% after 35 years and a 100.0% after 35, 40 and 45 years. Jubilee awards were paid to 72 employees in accordance with the provisions of the Ordinance on salaries.

– Miscellaneous allowances

Miscellaneous allowances totalled HRK 596,003.00. Supports were paid in accordance with Article 28 of the Ordinance on salaries. An employee who is faced with death of an immediate family member (spouse or life partner, child, parent or supported family member), employees who are faced with disability or long-term illness rendering them unable for work for longer than 90 days, employees who experienced natural or other disasters are entitled to extraordinary assistance in the amount of at least one average monthly salary paid per employee in legal persons in the Republic of Croatia in the last month for which official data have been published. Immediate family of a deceased employee is entitled to extraordinary assistance in the amount of three average salaries paid per employee in legal persons in the Republic of Croatia in the last month for which official data have been published. The decision on the payment of extraordinary assistance is adopted by the Governor. Financial support due to natural disaster was paid out to 12 employees in the amount of HRK 222,296.00, support in case of death of a family member was paid out to 20 employees, in the amount of HRK 201,550.00, while

support due to long sick leave was paid out to 19 employees, in the amount of HRK 172,157.00.

- Severance

Severance payments totalled HRK 1,029,198.00. Pursuant to the provisions of Article 24 of the Ordinance on salaries, employees are entitled to severance payments in cases and under the terms and conditions specified by law and contract of employment. When retiring employees are entitled to be paid severance in the amount of three average monthly salaries paid in the CNB in the preceding three months. Severance was paid to 18 employees pursuant to the provisions of the Ordinance on salaries.

- Gifts for children

The costs of gifts for children totalled HRK 428,347.00. The right of receiving a gift for children was realised by 274 CNB employees. Pursuant to the provisions of Article 27 of the Ordinance on salaries, employees are paid out a monetary amount at Christmas and/or given a gift for each child below 15, as well as for each child turning 15 by 31 December of the current year in accordance with the decision on payment and amount adopted by the Governor. In cases where both parents work with the CNB, only one parent is entitled to the said payment. In November 2020, the Governor reached the Decision to pay employees the amount of HRK 700.00 net as gift for children.

The Decision also stipulated that in addition to the monetary amount each child of a CNB employee under the age of 15 will be given a Christmas gift worth HRK 130.00. Taxable amounts of gifts for children were calculated and taxes were paid as prescribed by law.

- Gifts to employees and occasional benefits

The costs of gifts to employees and occasional benefits totalled HRK 527,564.00. In November 2020, the Governor reached a decision that CNB employees be gifted an amount of HRK 700.00 and small presents bearing the CNB logo.

- Use of company cars, parking places and garages

Expenses for the use of company cars, parking places and garages and fuel totalled HRK 1,944,737.00 and were related to benefits in kind (net benefits in kind, contributions from income, tax and surtax) for the use of parking places and garages in the amount of HRK 1,355,527.00, the use of cars owned by the CNB in the amount of HRK 255,700.00, compensation of costs for the use of a private or rented vehicle in the amount of HRK 237,779.00 and costs of fuel in the amount of HRK 95,731.00. Taxes, contributions and surtaxes were calculated on the said benefits in kind.

Benefits in kind for the use of parking places and garages for 70 employees totalled HRK 1,355,527.00. In February 2020, the Governor adopted a Decision of the right of use for business and private purposes of parking places and garages leased by the CNB which replaced the previous decision. The said Decision identified employees entitled to use parking places and garages.

Benefits in kind for the use of cars owned by the CNB totalled HRK 255,700.00. In October 2018, the Governor adopted the Ordinance on uninterrupted use of vehicles for

personal transport, which laid down the manner and conditions of uninterrupted use of vehicles for personal transport of CNB employees for business and private purposes for four CNB officials. Pursuant to the provisions of the said Ordinance, uninterrupted use is granted for personal vehicles owned by the CNB, vehicles leased by the CNB and private vehicles of users, owned by users or leased by them. The uninterrupted use of vehicles for personal transport is allowed to CNB Council Members and the Governor. Eight decisions have been adopted on the manner and conditions for the use of cars for private and business purposes. Namely, four decisions on the use of vehicles owned by the CNB, two decisions on the compensation of costs for the use of vehicles owned by users and two decisions on the compensation of costs for the use of two vehicles leased by users. Pursuant to the provisions of the Ordinance on uninterrupted use of CNB owned vehicles for personal transport the use of vehicles owned by the CNB for private transport is considered benefit in kind of the user. The basis for the calculation of income from the use of company cars for private purposes is the amount equal to 1.0% of the purchase value of the vehicle per month (increased by value added tax).

Benefit in kind arising from the use of a private vehicle or vehicle leased by the user for business and private services totalled HRK 237,779.00. Pursuant to decisions on the compensation of costs, the CNB settles the costs arising from vehicle registration, motor vehicle liability and fully comprehensive insurance and the costs of maintenance and repair of vehicles given for uninterrupted use for business and private purposes to four officials in accordance with the submitted invoices.

The amount of benefit in kind arising from the fuel spent using private vehicles for leased vehicles or business and private purposes totalled HRK 95,731.00. The CNB compensates fuel costs for the said use of vehicles pursuant to the Decision on the recognition of fuel costs of July 2018 for five officials.

– Subsidies for housing loans

Expenses for subsidies for housing loans totalled HRK 3,220,827.00. The manner, the criteria, the conditions and the procedure for meeting the housing needs of CNB employees is governed by the Ordinance on housing needs of employees of the CNB of May 2009 and two Ordinances on amendments to the said Ordinance of January 2012 and December 2016. CNB employees solved their housing needs by taking out loans with credit institutions, with the CNB subsidising their interest rate, in line with the aforementioned Ordinance, up to the amount of interest rate determined by a special decision of the Governor. In May 2009, the Governor adopted the Decision on the amount of interest rate subsidised by the CNB to its employees, setting the rate at up to 4.5%. CNB employees and officials were entitled to solve their housing needs after having been employed with the CNB for at least two years.

The amount of housing loans in relation to which the right to interest rate subsidy could be realised were capped at the kuna equivalent of EUR 200,000.00 in the period from 1 July 2009 to 1 March 2012, and in the period from 1 March 2012 to 1 April 2012 at the kuna equivalent of EUR 90,000.00. To realise their right to interest rate subsidy, employees submitted the application for the recognition of the right to interest rate subsidy and other documents (loan contract concluded with a credit institution, loan repayment plan, contract for the sale of real estate if the loan was granted for the purchase of real estate, that is, a property deed and remodelling costs and bill of quantities if the loan was granted for remodelling). Pursuant to the documentation submitted, the CNB concluded agreements with employees on solving their housing needs. The employees committed to

stay employed with the CNB for at least four years from the date of the conclusion of the agreement.

Pursuant to the decision of the Governor agreements on meeting of housing needs in accordance with the said Ordinance stopped being concluded as of 1 April 2012. The right to the interest rate subsidy arises from paid matured housing loan instalments for which the employee submitted a certificate of payment (monthly bank account statement indicating paid matured instalments and certificate of payment) by the 10th day of the month for the preceding month. Interest subsidies are subject to taxes, surtaxes and contributions in accordance with applicable regulations. In 2020, a total of 165 employees realised their right to subsidies for housing loans. The highest individual net amount of the interest rate subsidy in 2020 totalled HRK 49,662.00, while the average amount per employee was HRK 11,217.00, net, on an annual basis.

– Subvention of meal

The expenses for subvention of meal totalled HRK 2,203,822.00. The CNB enables its employees to consume food and beverages at CNB restaurants at the price of food and beverages increased by the corresponding amount of value added tax, with the CNB subsidising a portion of the price and employees paying a share of the price in accordance with the decision of the Governor. A total of 651 employee used the right to subvention of meal.

Pursuant to the provisions of Article 23 of the Ordinance on salaries, the CNB may subsidise a portion of the price of food, that is, of meals to employees using the services of the CNB for meal preparation.

In October 2019, the Governor adopted the Decision on subsidies for meals to employees, under which the CNB subsidises 67.0% of the price of meals to its employees that have been prepared at the CNB restaurant, including value added tax. The Decision of 1 July 2020 on amendments to the said Decision increased subsidies for meals to 76.0% of the price of the meal, including value added tax. The difference between the price of meals and the amount of subsidy is settled by employees. The CNB covers the expenses for subvention of meal up to a maximum of HRK 12,000.00 per employee per annum. The amount of subvention of meal represents non-taxable income of employees on the basis of real costs of food accrued during working hours evidenced by reliable documents in accordance with the provisions of Article 7, paragraph (2) of the Ordinance on income tax (Official Gazette 10/2017, 128/2017, 106/2018, 1/2019, 80/2019, 1/2020 and 1/2021).

– Transportation to/from work

The costs of transportation to/from work totalled HRK 3,924,409.00. They include compensation of costs of transportation to/from work in the amount of HRK 2,982,103.00, transportation by a private car or taxi in the amount of HRK 711,971.00 and other transportation related costs in the amount of HRK 230,335.00.

A total of 695 employees were entitled to the compensation of costs of transportation to/from work in the overall amount of HRK 2,982,103.00. Pursuant to the provisions of Article 31 of the Ordinance on salaries, CNB employees are entitled to compensation of transportation costs on local city and intercity lines used by employees to travel to/from work in the amount equal to the price of a monthly transport pass.

The compensation for transportation in the amount of HRK 711,971.00 was realised pursuant to the Decision on the compensation of costs of transportation by private car or taxi of March 2020. Pursuant to the said Decision employees who were, starting from 9 March 2020, due to exceptional circumstances caused by the possibility of contracting COVID-19 virus identified as team members whose presence is necessary at the CNB were compensated for the costs of use of private cars or taxi services to travel to/from work. In addition, during the period that the Decision to suspend public transport service (Official Gazette 34/2020 and 48/2020), adopted by the Civil Protection Headquarters of the Republic of Croatia, was in force, all employees when travelling to the premises of the CNB were entitled to the compensation of costs of transport by private car or taxi.

In case of use of a private cars for transportation to/from work, employees are compensated HRK 2.00 per kilometre, including parking and toll costs. In case of use of taxi services for transportation to/from work, CNB employees are compensated costs as per submitted invoice. The compensation of costs of use of private cars for transportation to/from work is recognised based on records on the use of private cars for business purposes.

- Sick leave above Health Fund's maximum

The costs of sick leave above the amount of compensation paid by the Croatian Health Insurance institute for 99 CNB employees totalled HRK 843.793,00. Pursuant to the provisions of Article 19 of the Ordinance on salaries, salary compensations for periods of temporary inability for work reimbursed by the Croatian Health Insurance Institute (sick leave exceeding 42 days) is determined pursuant to the basis laid down by health insurance regulations.

When the amount of the salary compensation exceeds the maximum amount paid under the regulations of the Croatian Health Insurance Institute, the difference in salary compensations, as well as all associated obligations under the law are reimbursed by the CNB.

- Life insurance premiums

Expenses for life insurance premiums totalled HRK 989,814.00. The compensation of expenses for life insurance premiums was approved in accordance with the Decision on the realisation of rights to the compensation of expenses arising from life insurance premiums adopted by the Governor in June 2019. The said Decision lays down the conditions under which CNB officials and employees are recognised and compensated for life insurance premiums paid to one of the insurance companies authorised to provide such services in the territory of the Republic of Croatia. The right to compensation of costs of life insurance premiums with savings component or without savings component, including the costs of additional accident insurance is realised by the Governor, Deputy Governor, Vicegovernors and some employees in managing positions. Officials who completed at least one full term of office and employees who were in managing positions for a minimum of four years, but continue working for the CNB, are entitled to a compensation of expenses for life insurance premiums for five years after the expiry of their term in office or termination of their managing position.

In March 2020, the Governor adopted a Decision on the maximum amount of compensation to CNB officials and employees on the basis of paid life insurance

premiums and additional accident insurance in 2020, which was set within the range of HRK 20,160.00 to 35,844.00, net, per annum. The right to compensation of costs of life insurance premiums was realised by eight officials and 14 employees. The policyholders of life insurance and additional accident insurance are the officials and the employees of the CNB, except in one case where the policyholder is the CNB. The insured persons, CNB officials and employees, are the beneficiaries of insurance in case they survive the policy term. Officials and employees are entitled compensation of expenses for life insurance premiums after submitting a confirmation of payment of policy premiums. The amounts of paid life insurance premiums and additional accident insurance were within the ranges laid down by the Decision of March 2020. All obligations under the law were paid on the calculated and paid amount of expenses for life insurance premiums.

- Health and life insurance premiums, expenses related to sport and recreation and pension insurance – III pillar

Expenses for Pension Fund – III pillar totalled HRK 2,317,360.00, expenses for health and life insurance premiums totalled HRK 480,920.00 and expenses related to sport and recreation totalled HRK 56,737.00. The Decision on the right of CNB employees to compensation of said costs was adopted by the Governor in December 2016.

The said Decision specifies the conditions, the criteria and the manner under which CNB employees are compensated for costs of voluntary pension insurance premiums (III pillar), for the costs of life insurance premiums paid to an insurance company in the Republic of Croatia, for the costs of additional or private health insurance and the costs of the use of sport and recreation programmes organised by registered providers of such services. The maximum amount of compensation is laid down by a separate decision every calendar year.

The right to compensation may be realised by all CNB employees, regardless whether having open-ended or fixed term employment contracts. In December 2019, the Governor reached the Decision determining the maximum monthly amount of compensation for costs of voluntary pension insurance premiums, additional or private health insurance premiums, life insurance premiums and costs of sport and recreation programmes in the period from 1 January to 31 December 2020. Pursuant to the said Decision, employees may opt for one of the six options (combination of compensations of the mentioned costs). The maximum monthly amount of compensation is HRK 380.00, net, per employee. Employees realised compensations up to the maximum amount laid down in the Decision of December 2019.

Expenses for Pension Fund – III pillar totalled HRK 2,317,360.00 for 577 employees. The right to reimbursement of voluntary pension insurance premiums up to the amount set by the Decision of December 2019 was realised after submission of a copy of the voluntary pension insurance contract.

Expenses for health insurance premiums for 179 employees totalled HRK 450,282.00. The right to compensation of costs of additional or private health insurance up to the specified amount was realised by employees who submitted evidence of paid health insurance premiums and a copy of health insurance policy in the name of the employee.

Expenses related to sport and recreation totalled HRK 56,737.00. The right to compensation of costs up to the specified amount was realised by employees who submitted certificates of payment of sport and recreational programmes. Expenses related

to sport and recreation also include costs laid down by the Decision on the amount and the manner of usage of financial funds granted for employee participation in road and trail races in 2020 and appointment of the CNB's race team and by the Decision on the appointment of CNB representatives to the organisation committee of 47th sports games of bank and FINA employees.

Expenses for life insurance premiums for 12 employees totalled HRK 30,638.00. The right to compensation of costs of life insurance up to the specified amount was realised by employees who submitted payment certificates of paid health insurance premiums and a copy of the life insurance policy in the name of the employee.

- Other city transportation costs on business trip

Taxable per diem allowances and other city transportation costs on business trip totalled HRK 46,291.00, of which taxable allowances amounted to HRK 43,006.00 and other city transportation costs on business trip to HRK 3,285.00. Per diem allowances and other city transportation costs on business trip are paid out pursuant to the provisions of the Ordinance on the compensation of travel and other expenses of February 2019. The provisions of the said Ordinance govern the manner of issuance and approval of travel orders, the amount of business travel compensation, the terms and conditions of compensation payments and the manner of calculation of travel and other expenses.

The decisions of the Governor stipulate that individual employees are entitled to increased per diem allowances. Namely, in October 2019, the Governor adopted the Decision on the increase of daily allowances to CNB employees for the purpose of on-site inspection of entities subject to inspection and Decision on the increase of daily allowances to CNB employees appointed to the special administration of credit institutions. The decisions laid down the amount of per diem allowance at HRK 330.00 net. All obligations under the law are calculated and paid in relation to the amount of per diem allowance exceeding the non-taxable amount.

– Other income

Other income totalled HRK 315,771.00. This includes costs of serology or PCR tests for employees totalling HRK 208,092.00 and costs of membership in various professional associations, benefits in kind for membership fees, etc. in the amount of HRK 107,679.00.

– **Materials, services and administrative expenses**

According to data from the business books Materials, services and administrative expenses totalled HRK 104,732,928.00, down HRK 124,832.00 from the previous year.

Table 4 shows data on planned and realised materials, services and administrative expenses

Table 4

Materials, services and administrative expenses

in HRK

No.	Description	Realised in 2019	Planned in 2020	Realised in 2020	Index (5/4)	Index (5/3)
1	2	3	4	5	6	7
1	Expenditures of other income	1,220,848.00	2,553,000.00	1,697,078.00	66.5	139.0
2	Costs after expiration of mandate	490,940.00	-	-	-	-
3	Other personnel expenses	1,758,893.00	1,869,200.00	827,265.00	44.3	47.0
4	Stationery and office supplies expenditures	1,162,839.00	1,524,400.00	846,822.00	55.6	72.8
5	Communications and post expenditures	5,181,149.00	6,973,100.00	7,124,991.00	102.2	137.5
6	Seminars.....	1,353,070.00	3,062,700.00	1,304,077.00	42.6	96.4
7	Expenses for personal services	11,935,023.00	18,376,300.00	11,641,074.00	63.3	97.5
8	Outside sources expenses ¹	23,414,114.00	32,528,300.00	24,105,986.00	74.1	103.0
9	Transportation expenses	4,369,734.00	4,169,100.00	1,012,230.00	24.3	23.2
10	Publications and subscriptions expenses	1,314,237.00	1,773,700.00	1,422,482.00	80.2	108.2
11	Other administrative expenses	7,438,789.00	8,478,400.00	3,023,246.00	35.7	40.6
12	Repairs and maintenance	44,896,099.00	44,889,900.00	50,244,698.00	111.9	111.9
13	Other expenses	322,025.00	1,900.00	1,482,979.00	-	460.5
Total		104,857,760.00	126,200,000.00	104,732,928.00	83.0	100.0

In terms of value, the most significant was the amount of repair and maintenance costs of HRK 50,244,698.00 or 48.0% and outside sources expenses of HRK 24,105,986.00 or 23.0% of total Materials, services and administrative expenses

– Expenditures of other income

Expenditures of other income totalled HRK 1,697,078.00. They include expenses from contracts with natural persons, totalling HRK 982,676.00, occasional benefits to pensioners, totalling HRK 238,984.00, scholarships to pupils and students according to the tender, totalling HRK 178,760.00, scholarships to pupils and students of deceased employees, totalling HRK 142,617.00, contributions on other income, totalling HRK 77,260.00, subsidies for housing loans, totalling HRK 47,723.00 and other compensations, totalling HRK 29,058.00.

Expenses from contracts with natural persons totalled HRK 982,676.00, of which the most significant amounts were those for the remuneration to the Commission for the Preparation of Proposals for the Design and Issue of Banknotes and Coins of the Republic

¹ Excluding banknote printing and coin minting

of Croatia and compensations to artists, totalling HRK 283,618.00, compensations to the audit committee, totalling HRK 257,473.00, compensation to liquidator totalling HRK 114,050.00 and copyright contracts for works published in CNB publications, totalling HRK 101,117.00. All obligations pursuant to law were calculated and paid on compensations arising from service and copyright contracts.

Remuneration to the Commission for the Preparation of Proposals for the Design and Issue of Banknotes and Coins of the Republic of Croatia (hereinafter referred to as 'Commission') and compensations to artists totalled HRK 283,618,00. Pursuant to the Decision of the Governor, a Commission was appointed to prepare and select proposals for the design and issuing of banknotes and coins of the Republic of Croatia for commemorative circulation coin with, artistic and technical solutions and proposals for key features and denomination structure and other requirements. The Commission consists of a chairperson, secretary, seven members and three external members. Commission members who are not CNB employees are entitled to a monthly remuneration of HRK 1,000.00, net. Commission members received compensation payments in the gross amount of HRK 55,516.00. The CNB published several invitations to tender for the creation of a visual solution for commemorative coins. All authors participating in the tender were remunerated, while copyright contracts were concluded with authors whose works were selected by the Commission as most successful. The expenses for said purposes totalled HRK 228,105.00.

Expenses for the remuneration of the audit committee totalled HRK 257,473.00. Pursuant to the Decision on the establishment of the audit committee, the chairperson of the CNB's audit committee is entitled to reimbursement equivalent to 90.0% and members of the committee to a monthly reimbursement equivalent to 60.0% of the average monthly net salary paid per employee in legal persons in the Republic of Croatia in the last month for which official data have been published.

In July 2020, the CNB concluded an Agreement on the performance of the activities of liquidators. Pursuant to the provisions of Article 71 of the Credit Unions Act (Official Gazette 141/2006, 25/2009 and 90/2011), by adopting the decision to initiate compulsory winding up proceedings the CNB appoints a liquidator and determines the type and scope of activities performed by the liquidator. The subject of the agreement is to determine mutual rights and obligations in the performance of compulsory-winding up proceedings of a credit union from Zagreb (the initiation of compulsory winding-up proceedings, change of authorisations for business accounts, preparation of the liquidation balance, in case the conditions are met to submit the request to open bankruptcy proceedings, collection of receivables, liquidation of assets and other activities directed at the closure of compulsory winding-up proceedings).

For the period from July to the end of December 2020, remuneration was paid pursuant to the provisions of the agreement, totalling HRK 114,049.70, in gross terms. After the CNB adopted the decision to revoke the authorisation to a credit union from Zagreb and the compulsory winding-up proceedings were initiated, pursuant to the opening liquidation balance the liquidator established that reasons for bankruptcy were present in operation of the credit institution and submitted the request to open bankruptcy proceedings to the Commercial Court in Zagreb, in September 2020.

Expenses for copyright contracts for the publication of papers in the CNB's occasional publications totalled HRK 101,117.00. In August 2020, the Governor adopted the Ordinance on CNB publications, replacing the previous Ordinance. The Ordinance lays

down the types, titles and contents of publications published by the CNB, compulsory elements each publication must contain, the editing policy for papers published in certain publications and remuneration for published papers, as well as other issues connected to their publication. The CNB publishes regular, occasional and other publications. For papers of employees published as occasional publications of the CNB authors, except CNB Council members, are paid remuneration for their contributions, HRK 5,000.00, net for papers in Working Papers, HRK 4,000.00 net for papers in Surveys, HRK 4,000.00 net for papers in Statistical and Methodological Papers and HRK 4,000.00 net for the publication in Legal Papers. Several copyright contracts were concluded in relation to papers published in Occasional publications of the CNB in accordance with the provisions of the Ordinance on CNB publications.

Expenses for occasional benefits to pensioners totalled HRK 238,984.00. In November 2020, the Governor adopted a Decision stipulating that the amount of HRK 700.00, net, to be paid to CNB's pensioners on the occasion of the upcoming holidays. The right to support was realised by 219 CNB's pensioners.

Expenses for scholarships to students according to the tender totalled HRK 178,760.00. Pursuant to the provisions of Article 33 of the Ordinance on salaries, aiming to support future young experts in particular fields as required by the CNB and in accordance with business interests and possibilities, the CNB as an employer that invests in education, may grant scholarships to students. The conditions for awarding scholarships and the amount of scholarship are laid down by the decision of the Governor, and tenders were invited for that purpose.

In 2019, the CNB published two calls for tenders for applications for scholarships. Pursuant to the first invitation, agreements were concluded with three scholarship recipients and pursuant to the second invitation agreements were concluded with four scholarship recipients in connection with scholarships of HRK 3,000.00, net. Two scholarship recipients were employed with the CNB in 2019. In 2020, five scholarships were awarded of which three scholarship recipients were subsequently employed with the CNB, while two annexes to scholarship agreements were concluded with two scholarship recipients, that is, their scholarships were continued in 2020.

In June 2020, the Governor adopted the Decision on the number, the terms and conditions and the criteria for selection of scholarship recipients. Accordingly, the maximum number of scholarship was capped at eight scholarships in the amount of HRK 3,000.00, net. The terms and conditions of the invitation for applications were as follows: the candidate must be a regular student of an integrated (undergraduate and graduate programme), undergraduate or graduate programme, who has completed at least the first year of studies, attends a study programme in the fields of economy, mathematics, IT, law or construction and is a citizen of the Republic of Croatia. The criteria for selection of scholarship candidates are, among other things, the selected study programme which corresponds to business needs and priorities of the CNB, results achieved in the selection process, the assessment of motivation and interest for work with the CNB, academic performance, the ECTS score up to the moment of application and other achievements during studies.

A total of 140 candidates participated in the tender published on 29 June 2020. After the selection process, the Human Resources Department proposed eight candidates. The Decision to award scholarships was adopted by the Governor in December 2020, pursuant to which agreements were concluded with eight students. The obligations to be met by

scholarship recipients are to regularly enrol in each following semester, i.e. each academic year, submit certificates from their faculty/higher education institution on exams passed, stipulating their grade average by semester, and to graduate within six months of the end of the last enrolled academic year. Pursuant to the provisions of the scholarship agreement, if the CNB has the opportunity and expresses interest and a need to hire staff, the scholarship recipient is obligated, after graduating to accept a job with the CNB and remain working with the CNB for at least as long as he/she received the scholarship or repay the entire amount received as scholarship.

Expenses for scholarships to pupils and students totalled HRK 142,617.00. Pursuant to the provisions of Article 29 of the Ordinance on salaries, in case of death of an employee, the CNB will at the request of the child or the child's guardian take over care of the child's education for the duration of its regular education, at the latest until the age of 26. Regular education is considered primary and secondary education, college education until the completion of specialist graduate studies, undergraduate or graduate academic studies attended regularly. The monthly assistance is awarded in the amount equivalent to 50.0% of net monthly salary paid per employee in legal persons in the Republic of Croatia in the last month for which official data have been published. Pursuant to the decisions of the Governor, agreements on mutual rights and obligations were concluded with four scholarship recipients. Scholarship recipients submitted evidence of regular attendance. Taxes and surtaxes on receipts from other income were paid on scholarship amounts above the non-taxable amount.

Contributions on other income totalled HRK 77,260.00 and included service contracts, copyright contracts and other payments.

Expenses for subsidies for housing loans totalled HRK 47,723.00. They include subsidies for housing loans for ten CNB's pensioners. In accordance with the provisions of Article 13, paragraph (3) of the Ordinance on meeting of housing needs of employees if the CNB, CNB's pensioners have the right to subsidies for housing loans after the termination of their contract of employment if their contract of employment was terminated during the life of their housing loan due to retirement.

– Other personnel expenses

Other personnel expenses totalled HRK 827,265.00, of which the most significant amounts in terms of value were those of expenses for working clothes and miscellaneous protective garments in the amount of HRK 484,264.00 and allowances per diem in the country and abroad in the amount of HRK 297,901.00.

Expenses for working clothes and miscellaneous protective garments which totalled HRK 484,264.00 were for the most part related to the procurement of personal and protective garments (work clothes and protective garments) and medical supplies. Urgent procurement procedure in line with the Ordinance on procurement was carried out for the procurement of personal and protective equipment. The value of the tender was HRK 129,915.00, including value added tax. Personal and protective equipment was procured based on purchase orders. By end 2020, the expenses on personal and protective equipment totalled HRK 117,166.00.

Medical supplies (disposable face masks, disinfectants and other materials) were procured pursuant to purchase orders from multiple suppliers for the purpose of compliance with epidemiological measures related to the COVID-19 pandemic.

Expenses for per diem allowances totalled HRK 297,901.00. They include per diem allowances for business travel abroad in the amount of HRK 241,121.00 and per diem allowances for business travel in the country in the amount of HRK 56,780.00. The provisions of the Ordinance on the compensation of travel and other expenses govern the manner of issuance and approval of travel orders, the amount of business travel compensation, the terms and conditions of compensation payments and the manner of calculation of travel and other expenses. Per diem allowances for business travel abroad are set in the amount equal to the non-taxable amount laid down by regulation adopted by the Minister of Finance, while per diem allowances for business travel in the country are set in the amount equal to the amount of non-taxable amount laid down by the regulations for government budget users. If meals are provided during a business trip at the expense of the CNB the amount of the per diem allowance is decreased. Employees are obligated to submit the final balance of their expenses within seven days of their return from the business trip. Per diem allowances were calculated and paid out in accordance with the Ordinance on the compensation of travel and other expenses.

– Stationery and office supplies expenditures

Stationery and office supplies expenditures totalled HRK 846,822.00. This includes expenditures for stationery and office supplies in the amount of HRK 806,422.00 and expenditures for office low value items the amount of HRK 40,400.00. More significant expenses for stationary and office supplies are related to expenses for the procurement of ink for photocopiers, telefax machines and printers and photocopier paper.

An open public procurement procedure in line with the Public Procurement Act was carried out for the procurement of ink for photocopiers, telefax machines and printers. The agreement was concluded in June 2019, worth HRK 582,164.00, including value added tax. In July 2020, an annex was concluded to the initial agreement, altering the contracted price to HRK 640,375.00, including value added tax, and extending the term of the initial agreement until the end of 2020. The expenses for ink for photocopiers, telefax machines and printers were HRK 391,963.00.

The procurement of photocopier paper was subject to a simple purchase procedure in line with the Ordinance on procurement. An agreement was concluded in April 2020, worth HRK 221,325.00, including value added tax. The expenses for photocopier paper totalled HRK 79,450.00.

– Communications and post expenditures

Communications and post expenditures totalled HRK 7,124,991.00. This includes telecommunications expenses in the amount of HRK 3,026,660.00, SWIFT expenses in the amount of HRK 2,313,475.00 and expenses for postal services in the amount of HRK 1,784,856.00.

Telecommunications expenses in the amount of HRK 3,026,660.00 were predominantly related to two agreements, one for telecommunication services and one for internet access services. The said agreements were concluded following open procurement procedures.

An agreement on the provision of telecommunication services was concluded with a telecommunication services provider in July 2019, worth HRK 4,930,689.00, including value added tax. The term of the agreement was two years, from July 2019 to July 2021.

The subject of the agreement were telecommunication services, including fixed and mobile network services, internet access and IP (internet protocol) switchboard connection to the telecommunication network and the procurement of mobile devices. In line with the agreement, HRK 2,254,455.00, including value added tax, was paid for telecommunication services, of which HRK 1,139,879.00, including value added tax, for mobile phone services. In accordance with the bill of quantities, 332 mobile connections were planned.

In May 2011, the Governor adopted the Ordinance on the use of business mobile phones and CNB telephone lines governing the use of mobile phones and CNB fixed telephone lines. The said Ordinance specified the officials and employees entitled to the use of business mobile phones and fixed telephone lines and the manner of their use and cost recognition. The CNB recognises and settles the monthly expenses for business mobile phones up to the amount determined by an authorised person in a special decision. Employees are obligated to settle the costs of mobile phones exceeding the amount laid down in the decision. The Decision on the amount of the maximum monthly expenses for mobile phones and types of services by mobile phone operators of July 2013 specified the maximum monthly expenses to be settled by the CNB. In addition, the service provider shows the expenses exceeding the set monthly maximum as a separate item. A review of telecommunication bills showed that the expenses for business mobile phones were calculated in accordance with the said Ordinance and agreement.

In March 2020, a one-year agreement was concluded for the service of internet access in a fixed electronic communications network, worth HRK 494,553.00, including value added tax. Pursuant to the agreement, the expenses for internet access totalled HRK 406,319.00, including value added tax.

SWIFT expenses totalled HRK 2,313,475.00. An agreement was concluded with the service provider. Pursuant to the provision of Article 30, paragraph (10) of the Public Procurement Act the procurement of the said type of service is not subject to the Public Procurement Act.

Expenses for postal services totalled HRK 1,784,856.00. They are largely related to the service of money transport and protection, in the amount of HRK 1,596,357.00, and postal services in the amount of HRK 165,761.00. An Open public procurement procedure was used for the procurement of postal services and a two-year agreement was concluded with the service provider in October 2019 for the period until the end of September 2021, worth HRK 591,206.00. The subject of the agreement were the receipt, sorting, transfer and delivery of postal service in domestic and international traffic. In line with the agreement, the expenses for postal services totalled HRK 165,761.00.

– Seminars

Expenses for seminars totalled HRK 1,304,077.00. This includes school fee expenses, in the amount of HRK 854,213.00, expenses of seminars, conferences, etc. in the country, in the amount of HRK 283,094.00, foreign language expenses, in the amount of HRK 77,401.00, expenses of seminars, conferences, etc. abroad, in the amount of HRK 61,300.00, school fee expenses under law regulations (safety at work, fire hazard

protection, first aid) in the amount of HRK 14,156.00 and expenses of external IT courses, in the amount of HRK 13,913.00.

School fee expenses totalled HRK 854,213.00. In February 2010, the Governor adopted the Ordinance on training and development of CNB employees, laying down the structure and the definition of education, the manner and the conditions under which the CNB enables the education of its employees, training of its trainees and the appointment and the operation of its Training and Education Committee. In June 2019, the Governor adopted the Decision on the appointment of a chairperson and members of the Training and Education Committee which deliberates the educational needs and requirements and selects employees who will attend different programmes. Pursuant to the provisions of Article 5 of the Ordinance on training and development of CNB employees, educational needs are laid down by internal bylaws governing the CNB's annual planning.

The Plan of the educational needs of employees is prepared within the framework of the Human Resources Plan. The 2020 Plan of the educational needs envisaged that 1 299 employees will be sent to and participate in different programmes, of which most programmes are related to professional development of employees. Pursuant to the provisions of Article 11 of the Ordinance on training and development of CNB employees, the CNB enables its employees to participate in different educational programmes (university postgraduate programme/postgraduate specialist programme, university graduate programme/specialist graduate programme, university undergraduate programme as well as programmes below the undergraduate specialist programme, etc.) in line with the needs of the business processes of the organisational unit where the employee works and the activities the employee carries out and/or when this is in accordance with the needs of the CNB's business processes.

An invitation to submit applications for participation in educational programmes was published in the in-house newspaper of the CNB at the end of 2019. The areas of interest were set as follows: information technology, research, model mapping, bank supervision and oversight, as well as the selection criteria. The Training and Education Committee completed the selection process and concluded education agreements with employees, regulating mutual rights and obligations. In 2020, agreements were concluded, i.e. employee participation in educational programmes was approved as follows: four postgraduate doctoral programmes, two university postgraduate specialist programmes, one university graduate programmes and four undergraduate specialist programmes. The CNB settles 85.0% of tuition costs and after the completion of the employee's education settles the remaining 15.0%. Employees are obligated to remain employed with the CNB depending on the duration of their education.

Expenses of seminars, conferences, etc. in the country for 122 employees totalled HRK 283,094.00, while expenses of seminars, conferences, etc. abroad for nine employees totalled HRK 61,300.00. The expenses of seminars, conferences, etc. were approved by the Training and Education Committee. This includes professional development programmes, training and specialisation programmes and training and specialisation in the field of competences.

Expenses for foreign language courses for 39 employees totalled HRK 77,401.00. The major share is related to English language courses, and the remaining share to courses of French and German languages.

- Expenses for professional services

Expenses for professional services totalled HRK 11,641,074.00. This includes expenses for access to financial data and software in the amount of HRK 6,360,040.00, expenses for other professional services in the amount of HRK 4,641,034.00, consultancy and lawyers expenses in the amount of HRK 442,500.00 and audit expenses in the amount of HRK 197,500.00.

Expenses for access to financial data and software in the amount of HRK 6,360,040.00 were largely related to two agreements for the use of electronic platforms. The procurement of said services was preceded by negotiated procedure without prior publication because the service providers hold exclusive rights, including intellectual property rights.

A one-year agreement for the use of the electronic platform that unites financial information from global financial markets, communication with partner banks and electronic securities trading was concluded in January 2020, in the amount of USD 533.618,00. An annex was concluded in March 2020, amending, among other things, the provisions on the renewal of the agreement. Pursuant to the agreement and its annex the expenses for the use of the electronic platform totalled HRK 4,654,208.00, including value added tax.

A one-year agreement for the use of electronic platform for communication with partner banks, concluding fixed-term deposits and conducting FX transactions (FX trading) was concluded in December 2019 to be applied from January to the end of December 2020, in the amount of EUR 141,644.00. Pursuant to the agreement, the expenses for the use of the electronic platform totalled HRK 1,298,172.00, including value added tax.

Within the framework of expenses for other professional services, totalling HRK 4,641,034.00, the most significant in terms of value were relating to the survey of consumption by foreign tourists in the Republic of Croatia and domestic tourist abroad, in the amount of HRK 2,092,622.00.

Pursuant to the Public Procurement Act, an open public procurement procedure was carried out in May 2020. The Agreement on the provision of the service of surveying the consumption by foreign tourists in the Republic of Croatia and domestic tourists abroad was concluded in June 2020 for a period from 1 June 2020 to 30 June 2022, worth HRK 4,500,000.00 (HRK 187,500.00 monthly), including value added tax. The survey of the consumption by foreign tourists in the Republic of Croatia and domestic tourists abroad is carried out for the purposes of compiling the balance sheet of the Republic of Croatia. The audit covered invoices submitted pursuant to the provisions of the Agreement, and the provider of the service submitted monthly reports on services rendered. Until the conclusion of the aforementioned Agreement for the procurement of said services in 2020, the Agreement on the provision of service surveying the consumption by foreign tourists in the Republic of Croatia and domestic tourists abroad was in force from March 2019, covering the period from 1 April 2019 to 31 March 2020, worth HRK 3,100,000.00, including value added tax. The service provider committed to organise seminars for selected survey pollsters, coordinate and manage the project, print and process survey questionnaires, assess the value of services provided by travel agencies, compile monthly reports and conduct research. The first Annex to the said Agreement was concluded in March 2020, stipulating, among other things, that the provider was obligated to provide the service of surveying the consumption by tourists in the Republic of Croatia and domestic

tourists abroad in April and May 2020, setting the price for the service at HRK 516,667.00, including value added tax. Other provisions of the initial Agreement remained unchanged.

Consultancy and lawyers expenses in the amount of HRK 442,500.00 were predominantly related to the service of report preparation on the survey of human resources benchmarking in supervision related organisational units of the CNB, in the amount of HRK 243,750.00. For said services an agreement was concluded in September 2020, worth HRK 243,750.00, including value added tax. The purpose of the report is to better prepare for the transition of supervision to the Single Supervisory Mechanism of which the CNB became part of in October 2020.

The human resources benchmarking survey covered five areas: an overview of existing activities, analysis of future state of activities within the framework of the supervision related organisational unit following the joining of the Single Supervisory Mechanism, experiences of peer countries, benchmark analysis and key findings of the survey. The services were provided and paid for in accordance with the Agreement.

Audit expenses totalled HRK 197,500.00. Open public procurement procedure was used and three tenders were submitted. The selection criteria were the tender price and the quality and experience of the auditor. The CNB Council adopted a decision proposing the audit firm. Pursuant to Article 61, paragraph (2) of the Act on the CNB and at the proposal of the CNB Council the Finance and Central Budget Committee of the Croatian Parliament adopted the Decision on the selection of the audit firm to perform the audit of the CNB's financial statements in May 2019. Pursuant to the said Decision, the audit firm will audit the financial statements of the CNB as at 31 December 2019, 31 December 2020 and 31 December 2021, as well as examine interim semi-annual financial statements as at 30 June 2019, 30 June 2020 and 30 June 2021. The Agreement on the audit of CNB financial statements for 2019, 2020 and 2021 was concluded in June 2019, worth HRK 658,750.00, including value added tax, pursuant to the bill of quantities and the tender submitted by the service provider. Annex I to the Agreement on the audit of CNB financial statements for 2019, 2020 and 2021 was concluded in December 2020, laying down, among other things that due to the adoption of the Act on Amendments to the Act on the CNB, the audit firm is not obligated to examine the CNB's semi-annual non-consolidated interim financial statements as at 30 June 2021. The costs of audit were calculated in accordance with the Agreement.

– Outside sources expenses

Outside sources expenses totalled HRK 24,105,986.00. Within the framework of outside sources expenses the most significant amounts are related to security services, HRK 9,590,854.00, other services, HRK 6,176,001.00, water, electricity and heating expenses, in the amount of HRK 2,578,585.00, municipal services expenses in the amount of HRK 1,959,432.00, renting and other occupancy expenses, in the amount of HRK 1,778,451.00, events and meetings expenses, in the amount of HRK 501,522.00 and student services expenses, in the amount of HRK 357,517.00.

Expenses for security services totalled HRK 9,590,854.00. The most significant amount was that of expenses for the protection of persons and property, totalling HRK 9,180,420.00. Article 6, paragraph (5) of the Act on the Protection of Monetary Institutions (Official Gazette 56/2015 and 46/2021) lays down that the protection of facilities of monetary institution is to be carried out by state owned legal persons specified by the Government of the Republic of Croatia. The legal person to carry out the protection of the

CNB's facilities was determined by the Decision of the Government of the Republic of Croatia of June 2015 and the Agreement on the protection of persons and property at CNB's facilities was concluded with respective person in December 2019, worth 9,199,444.00, including value added tax. Pursuant to the Agreement, the service provider is obligated to provide services at CNB premises. The term of the Agreement was 1 January to 31 December 2020.

Other services, in the amount of HRK 6,176,001.00, relate predominantly to the expenses for services of providing staff, in the amount of HRK 3,459,698.00, and services connected with the protection of property in the amount of HRK 1,062,500.00.

Pursuant to the Public Procurement Act, open public procurement procedure was used for services of providing staff. Two agreements were concluded following the completion of the procedure. In January 2020, an agreement was concluded on the provision of services by catering, administration and delivery staff, worth HRK 4,886,445.00, including value added tax, which regulates the services provided by 36 employees employed in the CNB restaurant and break rooms. An agreement on the procurement of services provided by transport workers was concluded in February 2020, worth HRK 309,750.00, including value added tax, regulating the services of three employees for the provision of daily/weekly services and as needed. In addition to submitting invoices the service provider submitted records of working hours for employees. The expenses for services of catering, administrative and delivery staff totalled HRK 3,221,246.00 and for services of transport workers, HRK 238,452.00, including value added tax.

Expenses for services related to the protection of property totalled HRK 1,062,500.00. They were related to the services of revising and amending documents under the title "Assessment of security with the Plan of protection and assessment of risk for CNB facilities". The procurement of the said service was carried out by using a negotiated procedure without prior publication in line with the provisions of the Public Procurement Act. A negotiated procedure was used because the Plan of protection and assessment of security for CNB facilities is adopted pursuant to the Act on the Protection of Monetary Institutions, the Ordinance on the conditions for and the manner of technical protection and the Decision of the Government of the Republic of Croatia on the determination of the legal person for the protection of CNB facilities. The agreement on the provision of the service of revising and amending documents, worth HRK 1,062,500.00, including value added tax, was concluded with the service provider. The contracted revision was the revision of the document under the title Assessment of security with the Plan of protection and assessment of risk for CNB facilities from 2012. The services were paid in accordance with the agreement and the service provider submitted documents specified in the agreement.

Water, electricity and heating expenses totalled HRK 2,578,585.00, of which electricity expenses totalled HRK 1,265,729.00. After completing the open procurement procedure for the procurement of electricity with the intent to conclude a Framework Agreement with an economic entity, the Framework Agreement on the supply of electricity was concluded in November 2017 for a period of four years, worth HRK 5,174,814.00, including value added tax. Pursuant to the Framework Agreement, agreements on the supply of the end buyer were concluded in November 2019 and December 2020, worth HRK 1,293,704.00 each, including value added tax. The agreements were concluded for a one-year term. The electricity bills covered by the audit were paid in accordance with the agreement.

Municipal services expenses in the amount of HRK 1,959,432.00 relate to municipal services expenses for CNB premises.

Renting and other occupancy expenses in the amount of HRK 1,778,451.00 are predominantly related to the expenses for the lease of business facilities, garages and parking places, and warehouse facilities in the amount of HRK 1,680,864.00. Lease agreements were signed for four business premises to house 116 employees from different CNB areas, departments and offices in the total square area of 2,347.15m² and storage space for office furniture and IT equipment, in the total square area of 492m². The lease agreements laid down the rent within the range of EUR 9.00 to EUR 12.00 per m² of business premises (excluding value added tax), including utility and other rental costs to be paid in kuna equivalent at the mid-point exchange rate of the CNB in the current month for the month of the invoice, the time limit for rent payment, the term of the agreement, payment of utility bills and other expenses related to the use of business premises, as well as other rights and obligations of contracting parties.

Further, an important agreement and annexes were concluded for the rent of 54 garage parking places. The expenses for the lease of garage parking places pursuant to the said agreement totalled HRK 340,202.00. In addition, the Agreement on the lease of ten parking places was concluded with the City of Zagreb in November 2019 for the lease of ten parking places at the price of HRK 40,000.00 per month. The lease payment for one year in advance generated a price reduction of 15.0%. The Agreement was concluded for a period from 1 December 2019 to 30 November 2020. The total cost pursuant to the said Agreement was HRK 408,000.00, including value added tax.

The use of garage parking places is regulated by the Decision on the right to use parking places and garage parking places rented by the CNB for business and private purposes of February 2020 granting the right to use rented parking places and garage parking places and specifying the beneficiaries. The said Decision replaced the Decision of June 2019. The lease for the aforementioned premises, garage parking places and parking places was calculated in line with the provisions of the agreement. According to CNB records, the realised expenses for property leases, equipment and vehicle leases in 2020 totalled HRK 4,526,556.00. They are predominantly related to the lease of business premises, garage parking places and parking places. The difference between the realised expenses and expenses recorded in this account arises from the manner in which lease expenses are recorded in accordance with the International Financial Reporting Standard 16 – Leases.

Events and meetings expenses totalled HRK 501,522.00. In terms of value, the more significant amount of HRK 290,549.00 is related to conference organisation costs. Pursuant to provisions Article 43, paragraph (2), item (9) of the Act on the CNB the Governor adopted the Decision on the organisation and financing of the 26th Dubrovnik Economic Conference in July 2019 within the framework of which a seminar was held for young economists. The Programme and Organisation Committee was appointed pursuant to the Decision, as well as the Committee for the selection of papers by young economists. An open public procurement procedure was used for the award of contracts for social and other special purposes. Four tenders were received and the economically most advantageous one was selected. In accordance with the terms and conditions from the tender documents an agreement and an annex to the agreement were concluded with the selected provider regarding the provision of services of the organisation of the said conference, which includes the accommodation of participants, catering services, transport

of participants, renting the venue, equipment, etc. The contracted price of the service provided was HRK 702,295.00, including value added tax. The Conference was held from 16 July to 21 July 2020 in Dubrovnik. The costs incurred pursuant to the said agreement were HRK 306,501.00, including value added tax. The overall conference costs, including the aforementioned costs pursuant to the said agreement were HRK 536,911.00. The costs in the amount of HRK 230,410.00 are related to travel allowance in the country, transport, compensation arising from service contracts with natural persons, occasional gifts and rewards recorded in other accounts.

Student services expenses totalled HRK 357,517.00. They are related to contracts for student jobs that were concluded for technical support services, archive document destruction, administrative support and other services. The price of service per hour was HRK 30.00 or HRK 35.00 net, depending on the type of work.

– Transportation expenses

Transportation expenses, in the amount of HRK 1,012,230.00, relate to transportation expenses, in the amount of HRK 843,588.00, and fuel expenditures in the amount of HRK 168,642.00. Transportation expenses predominantly relate to transportation expenses during business trips in the country and abroad. The Ordinance on compensation of travel and other expenses governs, among other things, the amount and the manner of calculation of transportation expenses for employees sent on business trips.

A responsible person who decides whether a business trip is necessary determines the means of transport to be used by the employee while travelling on business. While travelling on business employees may use means of public transport, travel by train or ship first class or by plain economy class. The Governor, Deputy Governor, Vicegovernors, Chief Economist, Chief Operating Officer and senior advisers to the Governor may travel business class on all flights and executive directors and office directors on intercontinental flights.

In addition, employees may use means of public transport, including taxis in justified cases, travelling from place of work or residence to the airport upon departure or arrival and upon arrival to and departure from the place to which they were sent on a business trip. Within seven days of their return from the business trip, employees submit a calculation of their travel expenses and evidence thereof. The compensation of transport expenses and other expenses related to transport while travelling on a business trip were calculated and paid in compliance with the provisions of the Ordinance on the compensation of travel and other expenses.

An open public procurement procedure in line with the Public Procurement Act was employed for the procurement of led-free gasoline and diesel fuel. An Agreement was concluded on the procurement of led-free gasoline and diesel fuel in April 2019, worth HRK 1,159,125.00, including value added tax. Variable prices were contracted as set forth in accordance with the Act on Oil and Petroleum Products (Official Gazette 19/2014, 73/2017 and 96/2019). The term of the Agreement was 1 June 2019 to 1 June 2021.

In October 2018, the Ordinance on uninterrupted use of vehicles for personal transport was adopted determining the manner and conditions for uninterrupted use of vehicles for personal transport of CNB employees. Uninterrupted use of vehicles means 24-hour use for business and private purposes. The provisions of Article 6 of the said

Ordinance stipulate that vehicle users are not obligated to keep records on mileage or time of use, except while travelling on business. Vehicle users are obligated to record the kilometres travelled in the travel order, and the calculation of the fuel quantity during a business trip is made by multiplying the kilometres travelled and fuel consumption. The Decision on recognised fuel costs of July 2018 lays down the maximum recognised costs settled by the CNB in cases of uninterrupted use of vehicles for private transport which correspond to the quantity of 1 000 l of fuel per month. The CNB has 13 vehicles. Records were kept of fuel consumption for each user, as well as records of kilometres travelled per vehicle. The costs settled by the CNB for uninterrupted use of vehicles for business and private purposes did not exceed the amounts laid down by the Decision on recognised fuel costs.

– Publications and subscriptions expenses

Publications and subscriptions expenses of HRK 1,422,482.00 were predominantly related to expenses for subscriptions to foreign and domestic printed and on-line professional publications, daily newspapers and the services of monitoring, collection, selection, processing, submission and archiving of media articles about and coverage of the CNB. Several simple purchase proceedings were carried out for the procurement of publications and subscriptions (for instance, electronic subscriptions, daily newspapers, professional publications, etc.)

Simple purchase procedure was used for the procurement of the service of monitoring, collection, selection, processing, submission and archiving of media articles and coverage of the CNB in accordance with the Ordinance on procurement. An agreement was concluded on the procurement of the said services in October 2019, worth HRK 240,175.00, including value added tax.

The term of the Agreement was 1 November 2019 to 1 November 2020. An Annex to the initial Agreement was concluded in October 2020, extending the term of the initial Agreement to 31 January 2021, at the latest. Other provisions of the initial Agreement remained the same. The expenses arising from the said Agreement and its Annex totalled HRK 206,885.00, including value added tax. The service provider submitted daily reports and monthly media analyses in accordance with the Agreement and the Annex for the invoices covered by the audit.

– Other administrative expenses

Other administrative expenses totalled HRK 3,023,246.00, and in terms of value a more significant amount was related to groceries expenses in the amount of HRK 881,325.00, costs of accommodation on business trips in the amount of HRK 789,914.00 and representation expenses in the amount of HRK 149,196.00 and to fees for non-hiring disabled persons in the amount of HRK 156,000.00.

Groceries expenses in the amount of HRK 881,325.00 are related to the procurement of groceries required by two restaurants and four break rooms. Several simple purchase procedures were carried out for the procurement of groceries (non-alcoholic beverages, milk and dairy, fresh meat and bakery products, etc.) in accordance with the Ordinance on Procurement and one open procedure in accordance with the Public Procurement Act. The balance and status of groceries by type, quantity and value is tracked in accordance with inventory and material accounting, while groceries by value are registered pursuant to financial accounting. The value adjustment from material and financial accounting is

carried out on the last day of the month. Pursuant to Article 10 of the CNB Statute, the Governor adopted the Decision on the manner of price formation of food and beverages in the CNB restaurant in December 2018 specifying the elements for the calculation of the price of food and beverages for CNB employees and business representation purposes.

The costs of accommodation on business trips totalled HRK 789.914,00. The Ordinance on compensation of travel and other expenses governs, among other things, the amount and the manner of calculation of accommodation expenses for employees sent travelling on business. If a business trip lasts for several days, employees are entitled to paid accommodation. The cost is calculated in the amount equivalent to the price of accommodation at a four star hotel. The Governor, the Deputy Governor, Vicegovernors, the Chief Economist, Chief Operating Officer, senior advisers to the Governor, executive directors, office directors and department directors are entitled to compensation of accommodation costs in the amount equivalent to the amount actually paid for accommodation, irrespective of the category of the hotel. After returning from business trips, the employees submit the calculation of the costs incurred while travelling on business and evidence thereof, including accommodation bills and a travel report.

Representation expenses totalled HRK 149,196.00 and in terms of value the most significant amount is related to occasional gifts and other representations, in the amount of HRK 92,621.00, representation expenses in CNB restaurants, in the amount of HRK 36,330.00, and representation expenses at different bars and restaurants (outside the CNB) in the amount of HRK 20,135.00.

The Ordinance on the terms and the manner of use of representation funds was adopted in January 2012, laying down the terms and the manner of use of the CNB's representation funds. Pursuant to the said Ordinance, representation expenses are costs of representation, as well as cost arising from a business relationship with business partners for food and drinks ordered at the CNB restaurant, food and drinks ordered at outside bars and restaurants, occasional gifts and costs of transportation and/or accommodation.

The Governor, Deputy Governor, Vicegovernors, senior officers in the Office of the Governor, executive directors, office heads and senior advisors in the Office of the Governor are entitled to use representation funds, except for travel and/or accommodation costs, while department directors and advisors in the Office of the Governor are entitled to order drinks in the CNB restaurant.

Expenses for occasional gifts and other representations in the amount of HRK 92,621.00 are predominantly related to materials from inventory (occasional gifts) and catering costs (for meetings, events and presentations). The procurement of occasional gifts is made pursuant to a request form for occasional gifts for representation purposes. The provision of Article 6, paragraph (4) of the Ordinance on the terms and the manner of use of representation funds specifies that records of occasional gifts be kept by the General Services Department and lays down the elements of such records. Request orders for occasional gifts for representation purposes and records of occasional gifts contained all data as specified by the said Ordinance.

Representation expenses incurred at CNB restaurants, in the amount of HRK 36,330.00, are related to representation expenses incurred in break rooms and CNB restaurants. Representation expenses incurred in bars and restaurant (outside the CNB),

in the amount of HRK 20,135.00, predominately relate to the consumption of food and beverages.

Representation expenses covered by the audit contain data specified by the provisions of the Ordinance on the terms and the manner of use of representation funds. Some of the representation expenses, accommodation expenses on business trips and other expenses were paid by business credit cards. Namely, the Ordinance on the manner of use of business credit cards in the CNB was adopted in February 2017 and its amendments in September 2018, regulating the manner of appointing the users of business cards, their rights and obligations and key implementing provisions. The Governor, Deputy Governor, Vicegovernors, Chief Economist, Chief Operating Officer, executive directors, office directors and senior advisers in the Office of the Governor are entitled to use business cards. The Governor may grant the right of use of business cards to other employees by a special decision. Officials and employees may use their business cards for the payment of justified costs in accordance with the CNB's bylaws and the annual financial plan, in particular: transport expenses, accommodation and business trip expenses, representation expenses and expenses specified by individual or other decisions of the Governor. The users of business cards are issued decisions on the right to use a business card, laying down the rights and obligations of users of business cards. Pursuant to Articles 3 and 4 of the Ordinance on the use of business credit cards in the CNB, the Governor adopted several decisions on the right to use a business card for said officials and employees and nine special decisions for 17 employees.

Fees for non-hiring disabled persons totalled HRK 156,000.00. The payment of the fee for non-hiring disabled persons is regulated by the Act on Vocational Rehabilitation and Employment of Persons with Disabilities (Official Gazette 57/2013, 152/2014, 39/2018 and 32/2020), the Ordinance on the quota system for employment of persons with disabilities (Official Gazette 75/2018, 120/2018, 37/2020 and 145/2020) and other implementing regulations. Pursuant to the provisions of Article 3 of the Ordinance on the quota system for employment of persons with disabilities, entities subject to the quota system for employment of persons with disabilities are employers that employ at least 20 employees. If the entity subject to the quota system fails to meet the quota for employment of persons with disabilities or replacement quota, it must pay a monthly fee in the amount equal to 30.0% of a minimum salary for a person with disability it had been obligated to employ to meet the said quota, i.e. 20.0% as of 1 March 2020.

Until the end of February 2020, the fee amounted to HRK 1,218.75 per month for each person with disability that should have been employed or employed as replacement and HRK 812.50 thereafter. The calculation of the said fees that was covered by the audit was carried out in accordance with regulations.

– Repairs and maintenance

Expenses for repairs and maintenance totalled HRK 50,244,698.00. They include the expenses for software support, in the amount of HRK 35,509,396.00, maintenance of plants and other equipment, in the amount of HRK 7,562,976.00, maintenance of premises, in the amount of HRK 4,452,117.00 and other in the amount of HRK 2,720,209.00.

Expenses for software support totalled HRK 35,509,396.00. They are related, among other things, to the adjustment of the CNB's information system to the European Central Bank's system, maintenance of the CNB's network, maintenance and development of the

international reserves management system, maintenance and improvement of the IBM hardware and software support, the management of the document management system (applications), maintenance of the programme package for monetary and macroeconomic projections, maintenance of the application for business communication of the Research Area and maintenance of the system for network attack protection.

In accordance with Article 131, paragraph (1), item (2), sub-item (b) of the Public Procurement Act, a negotiated procedure without prior publication was carried out for the adjustment of the CNB's information system to the European Central Bank's system because of the lack of market competition due to technical reasons. The service provider submitted the required documentation, confirming that it was the only one employing experts certified in the technology of the producer of the CNB's security and network infrastructure. Based on the negotiated procurement procedure, a one year Agreement, worth HRK 3,611,375.00, including value added tax, was concluded in January 2020. The subject of the agreement was support to existing systems, maintenance of the system for the oversight of data bases and data sharing service and maintenance of the system for security data processing. The service was provided in accordance with the Agreement and the cost of the service provided totalled HRK 2,976,738.00, including value added tax.

The CNB's network maintenance until May 2020 was subject to the Agreement concluded in 2019. In accordance with Article 131, paragraph (1), item (2), sub-item (b) of the Public Procurement Act, a negotiated procedure without prior publication was carried out because of the lack of market competition due to technical reasons. The service provider submitted the required documents, confirming that it was the only company in the Republic of Croatia with the required specialisation, that is, able to offer a specified set of required services, fulfil requirements for the maintenance of network and security components within the framework of the existing information system, respond to possible technical problems and glitches within an acceptable interval and respond to the requirements of business functions for changes of existing network system the failure of which would jeopardise CNB's operations. Based on the negotiated procurement procedure, a one year Agreement, worth HRK 4,680,425.00, including value added tax, was concluded in May 2020. The service was provided in accordance with the Agreement and the cost of the maintenance service totalled HRK 4,485,527.00, including value added tax.

Until June 2020, the maintenance and improvement of the IBM hardware and software support was subject to the Agreement concluded in 2019. In accordance with the provisions of the Public Procurement Act an open procurement procedure was carried out, based on which a one year Agreement, worth HRK 5,623,677.00, including value added tax, was concluded in June 2020.

The subject of the Agreement was, among other things, maintenance of hardware through malfunction detection and servicing in order for hardware to be functioning properly again, prevention oriented maintenance in accordance with IBM standards for each machine, consisting of specific tests, adjustments, fine-tuning, replacement of necessary parts, planning, scheduling and instalment of any technical adjustment required for the improvement of maintenance, operation and/or security of a particular machine. The service was provided in accordance with agreements and the cost of the service provided totalled HRK 4,666,783.00, including value added tax.

Until end of December 2020, the service of maintenance and development of the international reserves management system was subject to the agreement concluded in

2019. In accordance with the provisions of the Public Procurement Act an open procurement procedure was carried out in December 2020. A two-year agreement, worth HRK 5,846,375.00, including value added tax, was concluded with the service provider for the term from January 2021 to January 2023. The subject of the Agreement is the service of regular maintenance and development of the international reserves management system with smaller software updates, introduction of new system versions and the possibility of changes to system configuration aimed at the improvement of international reserves management. The service was provided in accordance with the agreement and the cost of the system maintenance service provided totalled HRK 3,651,135.00, including value added tax.

Until September 2020, the service of the document management system was subject to the Agreement concluded in 2019. In accordance with Article 131, paragraph (1), item (2), sub-item (b) of the Public Procurement Act, a negotiated procedure without prior publication was carried out as a result of the lack of market competition due to technical reasons. The service provider submitted documents confirming that it was the only provider with professional qualifications and project experience relating to technology used. Based on the completed negotiated procedure, a one year agreement, worth HRK 1,499,245.00, including value added tax, was concluded at end-September 2020. The subject of the Agreement is maintenance and updating of the document management system. The service was provided in accordance with agreements and the cost of the service provided totalled HRK 1,085,959.00, including value added tax.

Until end of May 2020, the maintenance of the software package for the creation of monetary and macroeconomic projections was subject to the agreement concluded in 2019. Simple purchase procedure was carried out in accordance with Article 10, paragraph (3), first indent of the Ordinance on procurement due to exclusive rights, including copyright, and the invitation to submit a tender was sent to one entity, the software producer. An agreement was concluded with the software producer in April 2020 for a term starting from May 2020 to the end of June 2021, in the amount of EUR 5,562.00. In addition to the development of monetary and macroeconomic projections the software package is used for projecting real estate prices, participation in working groups of the European Central Bank and of the European Systemic Risk Board. The service was provided in accordance with agreements pursuant to which the cost of the maintenance of the software package totalled HRK 52,294.00, including value added tax.

Simple purchase procedure was carried out for the maintenance of the business communication application in accordance with Article 10, paragraph (3), first indent of the Ordinance on procurement due to exclusive rights, including copyright, and the invitation to submit a tender was sent to one entity, the software producer. The provision of maintenance services with the software producer were contracted in July 2020 for a one-year period, in the amount of USD 25,200.00. The application is used for business communication for the purpose of direct group exchange of messages, file sharing and project cooperation. The service was provided in accordance with the Agreement pursuant to which the cost of application maintenance totalled HRK 98,154.00, including value added tax.

Until September 2020, the service of system maintenance of the network attack management system was subject to the Agreement concluded in 2019. Simple purchase procedure was carried out in accordance with Article 10, paragraph (3), first indent of the Ordinance on procurement due to exclusive rights, including copyright, and the invitation to

submit a tender was sent to one entity, the supplier that developed the system for network attack management.

A one-year agreement was concluded in September 2020, worth HRK 187,750.00, including value added tax. The subject of the agreement was the maintenance of the system protecting important CNB resources, including the vault. The service was provided in accordance with agreements pursuant to which the cost of maintenance of the network attack management system totalled HRK 187,750.00, including value added tax.

Expenses for maintenance of plants and other equipment totalled HRK 7,562,976.00. In terms of value the most significant were related to the service of maintenance of technical and logical system security, in the amount of HRK 4,176,948.00, the service of maintenance and updating of the central surveillance and management energy system in the primary and secondary location for HRK 1,391,656.00 and the service of maintenance of banknote sorting system for HRK 614,608.00.

Until February 2020, the service of maintenance of technical and logical system security was subject to the agreement concluded in 2019. In accordance with Article 131, paragraph (1), item (2), sub-item (b) of the Public Procurement Act, a negotiated procedure without prior publication was carried out as a result of the lack of market competition due to technical reasons. The service provider submitted a certificate verifying that it was the only firm in the Republic of Croatia authorised to provide services that are the subject of the agreement. Based on the completed negotiated procedure, two agreements were concluded in February 2020, the Agreement on the maintenance of the access control system and special protection of CNB resources – technical security with the agreed price of HRK 4,166,380.00, including value added tax, and the Agreement on the maintenance of the access control system and special protection of CNB resources – logical security with the agreed price of HRK 72,427.00, including value added tax. The service was provided in accordance with the agreements pursuant to which the cost of the application maintenance totalled HRK 4,176,948.00, including value added tax.

In accordance with the Public Procurement Act, open procurement procedure was used for the procurement of the service of maintenance and updating of the central surveillance and management energy system in the primary and secondary location. An agreement worth HRK 2,793,692.00 was concluded in December 2019, excluding value added tax, for a period of one year, that is, until the end of 2020. The costs of the service provided were HRK 1,391,656.00, including value added tax. Documents on services provided were submitted together with the invoices.

Two negotiated procedures without prior publication were carried out for the procurement of the service of maintenance of the banknote sorting system (in 2018 and 2020) in accordance with Article 131, paragraph (1), item (2b) of the Public Procurement Act. The said procedures were carried out because the service provider in question is the only entity in the Republic of Croatia authorised for maintenance of banknote sorting systems. In 2020, the procurement of said services was subject to two agreements, one from September 2018 and from August 2020. One agreement was concluded in September 2018, worth HRK 2,785,476.00, including value added tax. According to the bill of quantities, preventive and service maintenance was agreed together with immediate support by the system producer, in the amount of HRK 1,400,000.00 (in monthly lump-sum amounts of HRK 58,333.00), and spare parts worth HRK 1,385,476.00, including value added tax. The agreement was concluded for a period of two years, until September 2020. Two annexes to the initial agreement were concluded, the first in October 2018, which

among other things, specified that preventive maintenance consisted of weekly preventive servicing, servicing at a two-week frequency, of monthly servicing and quarterly servicing and checks.

The second annex was concluded in May 2020, specifying that a *force majeure* event has occurred as a result of the onset of the COVID-19 pandemic preventing the meeting of contractual obligations so the application of the initial agreement and of the first annex to the initial agreement was suspended from 1 April to 1 June 2020 or termination of force majeure, whichever comes first, to which the contracting parties will agree in writing and that during that period the service provider will submit monthly bills for the service of immediate support of the system producer in the amount of HRK 6,250.00 per month, including value added tax. Other provisions of the initial agreement remained unchanged. An agreement for the maintenance of banknote sorting system was concluded in August 2020, worth HRK 699,990.00 (in monthly lump-sum amount of HRK 58,333.00, including value added tax). The agreements will be in force as of 18 September 2020 for a period of one year. Monthly servicing orders were submitted together with invoices.

Expenses for maintenance of premises totalled HRK 4,452,117.00. The most significant amount is related to the service of business premises cleaning, in the amount of HRK 2,555,941.00 and urgent works for repair of earthquake damage, in the amount of HRK 948,563.00.

Open public procurement procedure was used in March 2019 for the procurement of the service of business premises cleaning in accordance with the provisions of the Public Procurement Act. An agreement was concluded in May 2019, worth HRK 5,359,809.00, including value added tax. The subject of the agreement were services of business premises cleaning. The unit price of cleaning per hour and square meter area, including a description of tasks were specified in the bill of quantities. The term of the agreement is 4 June 2019 to 4 June 2021. Records of working hours were enclosed with invoices (per month, employee, day, location) and evidence of services rendered verified by the service provider and the CNB. The services provided were calculated in accordance with the agreement and bill of quantities.

A simple purchase procedure in accordance with Article 10, paragraph (3), second indent of the Ordinance on procurement was carried out for the subject of procurement of necessary construction works for the elimination of dangers and necessary repairs after the earthquake, that is, an invitation for the submission of tender was sent to one entity due to extreme urgency resulting from great damages and danger from damaged and broken construction elements. Based on the simple purchase procedure the CNB and the contractor concluded an Agreement on construction works in April 2020, worth HRK 572,978.00, including value added tax. It was contracted that works will be paid in accordance with delivered quantities, once a month following verification by CNB representatives in accordance with executed works registered in the construction log and the construction book.

A construction handover checklist was signed in October 2020, where the CNB confirmed it had no objections to the quality of the construction works. The construction works were completed in accordance with the said agreement, in the amount of HRK 559,525.00, including value added tax.

A simple purchase procedure in accordance with Article 10, paragraph (3), second indent of the Ordinance on procurement was carried out due to the earthquake for the

subject of procurement of removal of the chimney from the heating room and generator, chimney adjustment and restoration of their functionality, that is, an invitation for the submission of tender was sent to one entity due to extreme urgency caused by the need to eliminate the danger to human life and health and prevention of further damage to the building. Based on the simple purchase procedure the CNB and the contractor concluded an Agreement on construction works in April 2020, worth HRK 391,488.00, including value added tax. It was contracted that works will be paid in accordance with delivered quantities, once a month following confirmation by CNB representatives in accordance with executed works registered in the construction log and the construction book.

Due to the need for additional works, the contractor requested an extension of the time limit for completion of said works so Annex I to the initial Agreement was concluded, extending the time limit for completion of works from 60 to 80 days. Works were completed in accordance with the Agreement and Annex to the Agreement, in the amount of HRK 389,038.00, including value added tax.

– Other expenses

Other expenses totalled HRK 1,482,979.00 and were largely related to other extraordinary expenses in the amount of HRK 1,051,854.50 and expenses from previous periods in the amount of HRK 393,395.50.

Within the framework of extraordinary expenses, expenses following a court judgement totalled HRK 1,014,035.00 and were related to the costs of initial debt in the amount of HRK 443,777.00, the costs of default interest in the amount of HRK 507,035.00 and the costs of litigation in the amount of HRK 63,223.00. Aforementioned costs were registered pursuant to the judgement of the Supreme Court of the Republic of Croatia of February 2020 under which the CNB was obligated to settle the initial amount of debt increased by the amount of default interest and litigation costs increased by the amount of default interest (for the initial debt the default interest was calculated for the period from 15 December 2010 to 17 April 2020).

Investments in fixed assets

The CNB's 2020 Procurement plan, includes, among other things, the planned procurement of assets in the amount of HRK 132,875,000.00, of which the purchase of land worth HRK 71,940,000.00 is not subject to the Public Procurement Act; procurement procedures in accordance with the Public Procurement Act or Ordinance on procurement were planned in the amount of HRK 60,506,250.00, procurements from previous years and multiannual agreements in the amount of HRK 372,500.00 and proceedings for subjects of procurement below the value of HRK 20,000.00 in the amount of HRK 56,250.00.

The plan and realised investments in fixed assets² are shown in Table 5 by type of asset.

² Excluding the costs of banknotes and coins, as they are not the subject of audit.

Table 5

Plan and realised investments in fixed assets

in HRK

No	Description	Planned in 2020	Realised in 2020	Index (3/2)
	1	2	3	4
1	Land	71,940,000.00	0.00	-
2	Office buildings	10,451,250.00	124,731.00	1.2
3	Furniture	828,500.00	215,244.00	26.0
4	Office equipment	4,543,750.00	4,725,858.00	104.0
5	Other equipment	7,796,000.00	1,219,814.00	15.6
6	IT equipment and software	36,884,500.00	38,117,187.00	103.3
7	Personal vehicle	245,000.00	0.00	-
8	Domestic and foreign books	39,000.00	19,201.00	49.2
9	Equipment for technical security system	147,000.00	187,049.00	127.2
	Total	132,875,000.00	44,609,084.00	33.6

Investments in fixed assets totalled HRK 44,609,084.00. Significant investments are related to the procurement of IT equipment and software, in the amount of HRK 38,117,187.00, or 85.4% of total investments in fixed assets. The realised investments, totalling HRK 44,609,084.00 were HRK 88,265,916.00 lower than planned, or 66.4%, because the purchase of land was not realised and due to the impact of the consequences of the COVID-19 pandemic and earthquake that hit the Zagreb area, which resulted in CNB operations being concentrated on ensuring uninterrupted operations, i.e. ensuring the CNB's optimum functioning.

In terms of value, the most significant investment was planned for the purchase of a land worth HRK 71,940,000.00 or 54.1% of total planned investments in fixed assets. The value of the land was planned based on the Real estate appraisal report of May 2017 that was prepared by the permanent court appointed expert witness for construction and real estate appraisal. The construction of CNB business premises, vault and cash centre, was envisaged on a plot of 98 276 m². The investment was not realised in 2020 due to resolving complex property and legal issues pertaining to the plot, which is under way. The provisions of Article 2, item (10) of the Act on the CNB prescribe that the location, structure and operations of the treasury of the CNB are of material importance for the financial, economic and security interests of the Republic of Croatia and its defence.

Investments in fixed assets were planned in the amount of HRK 10,451,250.00. They are related to building and expert supervision because of to the repurposing of residential real estate to business premises and the preparation of technical documentation, concept design, main design and detailed design for the construction of the vault or the cash centre. The planned procurement procedures for the purpose of repurposing of residential real estate to business premises were not carried out because the earthquake of March 2020 caused damage to the building and in order for the residential real estate to be repurposed to business premises it was necessary to repair the damage to the building. The investments realised, in the amount of HRK 124,731.00, are related to geotechnical services and the preparation of the geotechnical report.

Furniture was procured in the total amount of HRK 215,244.00. This relates to the procurement of ergonomic office furniture, office chairs and office furniture. A total of 16

simple purchase procedures were carried out in accordance with the provisions of the CNB Ordinance on procurement.

The furniture procurement procedure was preceded by market analysis in the form of collecting informational offers from at least three tenderers and documenting prices from online catalogues. The selection criterion was the lowest price. Three or more tenders were received based on completed procurement proceedings. The tenders with the lowest price were selected. The suppliers delivered the furniture in accordance with the agreed time limits and quantities and payments were made in accordance with the delivery note and agreed prices.

Office equipment was procured in the amount of HRK 4,725,858.00. This relates primarily to the purchase of personal computers in accordance with the Public Procurement Act and personal computers procured pursuant to the procedure carried out for the CNB by EPCO. The procurement of personal computers was preceded by market analysis. Prior consultations were held with interested economic entities which was followed by a report, stipulating that no objections or proposals were received from economic entities. Open public procurement procedure was carried out for the procurement of personal computers and the most economically advantageous tender was applied as the selection criterion, of which price had the greatest relative ponder. Two valid tenders were received. Following a review and assessment of the tenders submitted, a decision was made in favour of the tender with the lower price. The Agreement on the procurement of personal computers was concluded with the supplier in October 2020 for a term of three months. The supplier fulfilled its contractual obligations, delivering 545 personal computers in the contracted amount of HRK 3,975,763.00, including value added tax, which was paid pursuant to a signed delivery note.

Other equipment was procured in the amount of HRK 1,219,814.00. In terms of value, significant was the procurement and maintenance of a video spectral comparator. Market analysis was performed pursuant to offers collected from companies present in the market and information of representatives of companies that have no representative offices in the Republic of Croatia. The subject-matter of procurement was a forensic device used for video spectral analysis of banknotes, documents and manuscripts. The economically most advantageous tender was used as the selection criterion, of which price had the greatest relative ponder. In accordance with the provisions of the Public Procurement Act an open procurement procedure was carried out and three tenders were received. Following a review and assessment of tenders submitted the tender priced at HRK 740,500.00, including value added tax, was selected. An Agreement on the procurement and maintenance of the video spectral comparator was concluded in September 2020 for a period of two years. The supplier fulfilled its contractual obligations, in the amount of HRK 736,750.00, including value added tax, and the payment was made upon receipt of a certificate of a successfully completed test run.

IT equipment and software were procured in the amount of HRK 38,117,187.00. This relates to the procurement of IT equipment and software (among other things, the consolidation of virtual environment, expansion of server and data infrastructure for replication and management of IT services and improvement of infrastructure for user services, network switches for the primary and secondary location and virtualisation of the network environment). The procurement of IT equipment and software was preceded by market analysis. In addition, prior consultations were held with interested economic entities which were followed by a report, stipulating that no objections or proposals were received from economic entities. Open public procurement procedure was carried out pursuant to

the provisions of the Public Procurement Act for the procurement of all four subject-matters of procurement and the most economically advantageous tender applied as the selection criterion, of which price had the greatest relative ponder.

Until end of June 2020, the procurement of the service of expansion of server and data infrastructure for replication and management of IT services was carried out pursuant to the Agreement concluded in November 2019. In accordance with the provisions of the Public Procurement Act an invitation to tender in an open public procurement procedure was published in Electronic Public Procurement Classifieds in October 2020 leading to the receipt of two valid tenders. Following a review and assessment of the tenders submitted, a decision was made in favour of the tender with the lower price and in December 2020 a one-year Agreement for the expansion of server and data infrastructure for replication and management of IT services was concluded with the supplier. The payment arising from the said agreements was HRK 8,525,788.00, including value added tax, in accordance with the handover checklist and delivery notes.

An open public procurement procedure in accordance with the provisions of the Public Procurement Act was conducted for the procurement of services of consolidation of virtual environment. Following a review and assessment of the tenders submitted, a decision was made in favour of the tender with the lower price. An Agreement on the consolidation of virtual environment was concluded for a term of three years in August 2020. The supplier fulfilled its contractual obligations, worth HRK 7,786,275.00, including value added tax, and payments were made based on the receipt of certified reports on completed services and signed delivery notes.

Until April 2020 the procurement of network switches for primary and secondary location and virtualisation of network environment was carried out pursuant to the Agreement concluded in December 2019. In accordance with the provision of Public Procurement Act an invitation to tender in open public procurement procedure was published in Electronic Public Procurement Classifieds in June 2020 leading to the receipt of one tender from a consortium of tenderers. Following a review and assessment of the tenders submitted, a decision was made in favour of the received tender. A one-year Agreement on the procurement of network switches for the primary and secondary location and virtualisation of network environment was concluded in September 2020. Pursuant to these agreements, a total of HRK 7,009,716.00 was paid, including value added tax, in accordance with the handover checklist and delivery notes.

Open public procurement procedure in accordance with the provisions of the Public Procurement Act was conducted for the procurement of services of the improvement of infrastructure for user services. Two valid tenders were received. Following a review and assessment of the tenders submitted, a decision was made in favour of the tender with the lower price. An Agreement on improvement of infrastructure for user services was concluded in October 2020 for a term of two years. The supplier fulfilled its contractual obligations, delivering 100 licences worth HRK 150,000.00, including value added tax, which was paid pursuant to a signed delivery note.

Simple procurement procedures were carried out for the procurement of domestic and foreign books and equipment for the technical security system in accordance with the CNB's Ordinance on procurement.

III THE 2020 AUDIT

Audit proceedings were carried out in the period from 28 October 2020 to 2 July 2021.

Audit objectives and areas

The audit objectives were set in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and the provisions of the Act on the State Audit Office.

The objectives of the audit were as follows:

- to check whether operating expenses in the part of administrative operation relating to staff costs and materials, services and administrative expenses were incurred in accordance with the applicable regulations governing CNB operation;
- to check whether investments in fixed assets for the procurement of real estate property, movable property and equipment were in accordance with applicable regulations governing CNB operations; and
- to check other activities in the part of administrative operations that ensure that financial transactions and information are carried out in accordance with applicable regulations governing CNB operation.

Audit areas were determined in connection with the subject and objectives of the audit in accordance with the provisions of the Act on the State Audit Office that governs the competences of the State Audit Office.

Criteria for expression of opinion

Criteria for expression of opinion on compliance are as follows:

1. the Act on the Croatian National Bank;
2. the Labour Act;
3. the Act on the Prevention of Conflict of Interest;
4. the Income Tax Act (Official Gazette 115/2016, 106/2018, 121/2019 and 32/2020);
5. the Public Procurement Act;
6. the Act on Vocational Rehabilitation and Employment of Persons with Disabilities;
7. the CNB Statute (September 2018), Amendments to the CNB Statute (October 2019) and Amendments to the CNB Statute (October 2020);
8. the Ordinance on the CNB organisational structure (January 2020) and the Ordinance on amendments to the Ordinance on the CNB organisational structure (August 2020);
9. the Code of Conduct of CNB Employees (November 2016), the Amendments to the Code of Conduct of CNB Employees (July 2018) and the new Code of Conducts of CNB Employees (September 2020);
10. the CNB Accounting Policies (December 2015), the Decision on amendments to the CNB Accounting Policies (December 2016) and the Decision on amendments to the CNB Accounting Policies (December 2017 and January 2019);
11. the Accounting procedures (October 2018 and October 2020);

12. the Rules of operation (May 2015), the Amendments to the Rules of operation (January 2020), the Amendments to the Rules of operation (January and June 2020);
13. the Ordinance on professional and other positions and positions of officials in the CNB (June 2014), Ordinance on amendments to the Ordinance on professional and other positions and positions of officials in the CNB (July 2018 and May 2019) and the new Ordinance on professional and other positions and positions of officials in the CNB (January 2020);
14. the Ordinance on salaries and other income of CNB employees (January 2020), Ordinance on amendments to the Ordinance on salaries and other income of CNB employees (July 2020);
15. the Ordinance on the management of job performance of CNB employees (February 2008), Ordinance on amendments to the Ordinance on the management of job performance of CNB employees (March 2010 and April 2012);
16. the Ordinance on the compensation of travel and other expenses (January 2019);
17. the Ordinance on CNB publications (August 2020);
18. the Ordinance on training and development of CNB employees (May 2009) and the Ordinance on amendments to the Ordinance on training and development of CNB employees (February 2010);
19. the Ordinance on uninterrupted use of vehicles for personal transport (October 2018);
20. the Ordinance on the terms and the manner of use of representation funds (February 2012);
21. the Ordinance on the use of business mobile phones and CNB telephone lines (June 2011);
22. the Ordinance on solving the housing needs of CNB employees (May 2009), the Ordinance on amendments to the Ordinance on solving the housing needs of CNB employees (January 2012 and December 2016);
23. the Ordinance on procurement (December 2018);
24. The Ordinance on the use of business credit cards in the CNB (March 2017) and Ordinance on amendments to the Ordinance on the use of business credit cards in the CNB (October 2018);
25. the 2020 Operating plan (December 2019);
26. the Strategic planning methodology (June 2008); and
27. the CNB planning methodology (consolidated text of May 2004);
28. the decisions adopted by the Governor, Agreements and other bylaws.

Audit methods and procedures

Different audit methods and procedures were applied in order to collect sufficient, valid and relevant audit evidence. Regulations, bylaws, decisions and other relevant documents pertaining to the compliance of CNB's operations were reviewed and analysed. The risks from different deficiencies, divergences and irregularities that can arise in connection to the subject-matter of the audit were identified and assessed. Internal controls established as the management's response to these risks were assessed. The audit approach was determined based on collected and analysed information related to the compliance of CNB's operations and on the assessment of the internal control system, taking into account the possible subject-matter of the audit as defined by the provisions of the Act on the State Audit Office Compliance with the relevant laws, regulations and internal bylaws was checked.

Appropriate analytical procedures were applied to the calculation and analysis of material indicators. Compliance of material business events, in terms of value, was checked, while less significant items, in terms of value, were checked using the sampling method. Interviews were conducted with employees and explanations were obtained from responsible persons in relation to business events that were the subject-matter of audit proceedings. Expert judgement was applied in the formulation of audit conclusions, taking into account audit findings, the importance and the type of omissions identified by the audit.

The 2020 findings

The audit encompassed the following areas: competence and organisation, planning, accounting and reporting, public procurement, staff costs and materials, services and administrative expenses and investments in fixed assets.

The 2020 audit established omissions relating to accounting and reporting, planning, public procurement, staff costs, materials, services and administrative expenses and investments in fixed assets.

1. Accounting and reporting

1.1. The CNB prepares a summary balance sheet, presenting consolidated data on all transactions relating to basic functions of monetary authorities. In accordance with the provision of Article 62, paragraph (2) of the Act on the CNB, the CNB, on a monthly basis and at the latest within ten working days from the end of the previous month, prepares, draws up and submits to the Ministry of Finance its summary balance sheet as at the last day of the month concerned. As explained by the responsible person, in accordance with a long standing practice, summary balance sheet of the CNB is not sent to the Ministry of Finance in paper form considering that it is regularly published on the CNB's website and submission via publication on the CNB's website has been agreed verbally with the Ministry of Finance.

The State Audit Office recommends that monthly delivery of the summary balance sheet should be agreed with the Ministry of Finance in writing.

1.2. *The CNB accepts the recommendation pertaining to the delivery of the summary balance sheet and stated in Explanation that in addition to the existing practice of publishing the summary balance sheet on the CNB's website it will also arrange with the Ministry of Finance for a monthly delivery of the summary balance sheet in writing, in line with the provisions of Article 62, paragraph (2) of the Act on the CNB.*

2. Planning

2.1. The strategic planning process complies with the Strategic planning methodology. In accordance with the Strategic planning methodology, Strategic planning determines the direction of the CNB's future development for a period of three years. Strategic planning is a process that includes the preparation of the CNB's Strategy, determination of its vision, mission and core values. The CNB Strategy is a document defining the main strategic objectives for a relevant strategic period, specific objectives arising therefrom and measures employed to achieve these objectives,

following completed analysis of existing situation, environment, stakeholders and internal environment.

The CNB's vision and mission that are part of the strategic planning process have been published on the CNB's website. In addition, the CNB's 2020 Activities plan laid down activities associated with strategic objectives, strategic areas identified in the Strategic planning methodology and CNB's tasks set forth by the provisions of Article 4 of the Act on the Croatian National Bank; The document – CNB Strategy, which would determine the direction of the CNB's development in the following three years, was not adopted, as should have been done pursuant to the Strategic planning methodology.

The State Audit Office recommends the preparation of the CNB Strategy for the three-year period pursuant to the Strategic planning methodology.

Annual plans are governed by the provisions of the Act on the CNB and Planning methodology, which, among other things, includes the Ordinance on planning. Pursuant to the provisions of Article 59 of the Act on the CNB, the CNB forecasts its income and expenditures in the financial plan and in accordance with the provisions of the Planning methodology, the operating plan consists of the financial plan, activities plan, human resources plan, procurement plan, expenditures plan and function plans. The 2020 Financial plan was adopted by the CNB Council and the 2020 Operating plan by the Governor in the end of December 2019.

The 2020 Procurement plan was adopted within the framework of the 2020 Operating plan and it includes the planned procurement procedures carried out in accordance with the provisions of the Public Procurement Act or the CNB Ordinance on procurement, in the total amount of HRK176,476,700.00 In line with the provisions of Article 28 of the Public Procurement Act and Article 4 of the Ordinance on procurement plan, agreements register, prior consultation and market analysis relating to public procurement, the 2020 Procurement plan was published in the Electronic public procurement classifieds. In 2020, 19 amendments to the Procurement plan were published in Electronic public procurement classifieds. According to the latest amendments, the planned procurement of goods, works and services was estimated at HRK 189,469,450.00. The amendments to the initial 2020 Procurement plan increased the plan by HRK 12,992,750.00 or 7.4%. Considering that the 2020 Procurement plan is an integral part of the 2020 Operating plan, the 2020 Operating plan should have been amended as a result of amendments to the 2020 Procurement plan and this was not done. In accordance with the Planning methodology which includes the Ordinance on planning, amendments to plans are to be undertaken in line with the same procedure as the initial preparation and adoption.

The State Audit Office recommends that amendments to the Operating plan be adopted in line with the same procedure for the initial preparation and adoption in accordance with the Planning methodology.

In accordance with the Rules of Procedure, the CNB's needs to employ new staff are determined by the Governor in the CNB's. Pursuant to the provisions of Article 9 of Ordinance on professional and other positions and positions of officials in the CNB the necessary number of employees by expert and managerial position per organisational unit is determined by the CNB's Operating plan. The 2020 Human resources plan that includes the specification of the existing and the expected

number of employees by expert and managerial positions and the plan of educational needs constitutes an integral part of the 2020 Operating plan.

In accordance with the CNB's 2020 Human resources plan the expected number of employees as at 31 December 2020 in expert and managerial positions was 705. The required number of employees per organisational unit was not stipulated. According to the explanation stipulated in the 2020 Human resources plan, new employment is not envisaged at the level of organisational units, i.e. the employment policy is directed at the management of employee numbers in accordance with operational priorities. Considering that vacancy announcements published by the CNB in 2020 stipulated the organisational unit were the employment was planned, it is necessary to plan the number of employees in professional and other positions by organisational units as laid down by the Ordinance on professional and other positions and managerial positions in the CNB.

The State Audit Office recommends that the required number of employees in professional and other positions by organisational units be planned in the preparation of the Operating plan in accordance with the provisions of the Ordinance on expert and other positions and managerial positions in the CNB.

- 2.2. *The CNB accepts the recommendation in relation to the development of the CNB Strategy and states in its Explanation that the main objective and specific tasks of the CNB as the central bank are mainly long-term in character and are not subject to frequent amendments. The Strategic planning methodology adjusted the theoretical setup of the strategic planning process to specifics of central banking operations and determined the concept that is tailored to CNB needs. The creation of the said document that will include, or rather summarise, the strategic elements, which was defined as the possibility by the Strategic planning methodology. Therefore, above everything else, it brings the benefits that arise from the communicational needs relating to the CNB's external and internal environment. In order to achieve additional flexibility of the Strategic planning methodology towards amendments of internal organisation and other changes in external and internal environment, a new Strategic planning methodology will be adopted, which will result in the adoption of an additional document, that is, of the Strategic plan for the particular strategic period. The CNB accepts the recommendation in relation to the amendments to the Operating plan and in its Explanation explains that the CNB's Procurement plan is a document for planning the procurement of goods, services and works at CNB level. The procurement plan serves to plan the subject-matter of procurement and the value of procurement, excluding the value added tax. The organisational unit competent for procurement prepares the CNB's Procurement plan in line with the Public Procurement Act; The CNB's Procurement plan is made publicly available. The new Operational planning methodology will be adopted with an aim to better regulate the internal planning process and in accordance with the changes to the CNB's external and internal environment. The said Methodology will additionally include and define in more detail the preconditions and the procedure required for the amendment of the Operating plan, that is, the Procurement plan. The CNB accepts the recommendation in relation to the planning of the required number of employees per organisational unit and states in its Explanation that when preparing the CNB Human resources plan, the Human Resources Department, in accordance with the Activities plan and data on the CNB's existing resources and foreseeable fluctuation, established the number of employees per managerial and professional positions as at 31 December of the current year and the number of*

required new employees per managerial and professional position as at 31 December of the plan year. In order to improve the process of determining human resources needs, the CNB started conducting individual and group benchmarking studies in 2020, based on which the required number of employees will be determined in communication with organisational units and at the level of organisational units (areas/offices/centre). Accordingly, the plan for new vacancies will be established broken down by organisational unit, professional, managerial and other positions. In addition, the Ordinance on professional and other positions and managerial positions with the CNB will be amended so as to lay down that the required number of employees in managerial, professional and other positions at the CNB level is established by the CNB's Operating plan.

3. Public procurement

3.1. The CNB carries out public procurement in accordance with the provisions of the Public Procurement Act, Ordinance on procurement and other implementing regulations and internal bylaws. Pursuant to the Statistical report on public procurement, based on 25 open public procedures and ten negotiated procedures without prior publication, 31 contract was concluded in 2020 on the procurement of goods, works and services in the overall value of HRK 67,145,833.00, excluding value added tax, and three, worth EUR 8,711,644.00, and one worth USD 533,618.00. The procurements subject to the provisions of the Public Procurement Act that are covered by audit procedures were carried out in compliance with the provisions of the said Act.

Pursuant to the provisions of Article 15, paragraphs (1) and (2) of the Public Procurement Act, the rules, the terms and conditions and the procedures of simple purchases (subject-matter of procurement of the estimated value below HRK 200,000.00 for goods and services and below HRK 500,000.00 for works) are determined by general bylaws, taking into account the principles of public procurement and the possibility of application of electronic means of communication. The Ordinance on procurement was adopted in accordance with the said provisions of the Public Procurement Act and is used by the CNB to carry out simple purchases. Based on completed simple purchase procedures, the value of procurement reached HRK 11,590,960.00, of which HRK 5,533,161.00 for services, HRK 5,063,353.00 for goods and HRK 994,447.00, excluding value added tax.

The said Ordinance governs the planning, the preparation and the completion of public procurement, conclusion of agreements and contracts, control of execution, record keeping and reporting, as well as other related issues. Pursuant to the provisions of Article 10, paragraph (1) of the Ordinance on procurement, the preparation and the use of simple purchases is governed by the articles of the said Ordinance that govern public procurement.

Further, pursuant to the provisions of Article 10, paragraph (2) of the Ordinance on procurement simple purchases specified by internal bylaws during the creation of the Procurement plan are published in Electronic public procurement classifieds, while other simple purchases are carried out by organisational units that are competent for subject-matters of procurement. It arises from the aforesaid, that planning, preparation, completion, contracting and control of simple purchase proceedings carried out by organisational units is not completely regulated by the Ordinance on procurement, that is, that competences in the procurement process are not determined, nor is the manner of communication with economic entities, levels of

publication and the obligation to document and check the course of simple purchases.

Considering the value of simple purchases carried out by organisational units, it is necessary to lay down rules, conditions and simple purchase procedures in such a manner so as to clearly determine the competences in the procurement process, define the manner of communication with economic entities, the level of publication and the obligation to document and control the course of simple purchase procedures with an aim to ensure adherence to public procurement principles.

The State Audit Office recommends that the use of simple purchases be governed by the Ordinance on procurement and that more uniform procedure and adherence to public procurement principles be ensured.

Pursuant to Article 203 of the Public Procurement Act, the contracting authority determines the subject-matter of procurement which represents a technical, technological, artistic, functional or other objectively determinable unit. The procurement of food in the estimated value of HRK 1,992,000.00, excluding value added tax, was planned in the CNB 2020 Procurement plan and amendments to the 2020 Procurement plan as 15 different subject-matters of procurement.

Altogether 76 simple purchases were carried out pursuant to which the procurement value was HRK 1,046,791.00, excluding value added tax, and one open procurement procedure pursuant to which the contracted value of procurement was HRK 468,580.00, excluding value added tax. The procurement of furniture in the total value of HRK 635,000.00, excluding value added tax, was planned in the CNB 2020 Procurement plan and amendments to the 2020 Procurement plan in four subject-matters of procurement. Altogether 16 simple purchases were carried out pursuant to which the contracted value of procurement was HRK 281,540.00, excluding value added tax. The food and furniture as subject-matters of procurement were planned in the Procurement plan in several procurement procedures although they represented a technical, technological, artistic, functional or other objectively determinable unit.

The State Audit Office orders that the subject-matter of procurement be defined so as to represent a technical, technological, artistic, functional or other objectively determinable unit, in order for goods of the same type to be precisely grouped in the procurement plan, for the estimated value to be adequately determined and for an appropriate procurement procedure to be carried out in accordance with the provisions of Article 203 of the Public Procurement Act.

- 3.2. *The CNB accepts the recommendation relating to the Ordinance on procurement and states in its Explanation that activities directed at the creation and adoption of the new Ordinance on simple purchase have been undertaken, which will prescribe the rules, terms and conditions and simple purchase procedures in such a manner to clearly determine competences in the procurement process, define the manner of communication with economic entities, the level of publication and the obligation to document and control the course of simple purchase procedures with an aim to ensure uniform procedures and adherence to public procurement principles. In addition, the CNB accepts the order related to defining the subject-matter of procurement and in its Explanation states that the procurement plan in the upcoming years will group goods of the same type, adequately determine the estimated value and identify and carry put appropriate procurement proceedings in accordance with the provisions of Article 203 of the Public Procurement Act.*

4. Staff costs

- 4.1. Staff costs totalled HRK 203,054,755.00. This includes gross salaries, totalling HRK 157,416,591.00, contributions, totalling HRK 25,679,604.00 and other gross income of employees, totalling HRK 19,958,560.00.

The basic salary is determined based on the complexity of activities within the framework of a particular position. The basic salary is calculated by multiplying the number of points awarded for performance of individual activities with the number of working hours and the value of the point. The value of the point is determined by the Decision on the value of the point by working hour for calculating the base gross salary of CNB employees that is applied from 1 January 2020. In accordance with the said Decision the value of the point by working hour for the purpose of calculating the basic salary gross salary was increased 2.0% from the previous period. The said increase of the value of the point was planned by the CNB's Operating plan for 2020. In addition to the said increase, the CNB's Operating plan for 2020 planned for a 2.0% increase in the value of the point in June and a 2.0% increase in October 2020, which was not realised. The reasons for the planned increase in the value of the point of altogether 6.0% were not explained in the CNB's Operating plan. In addition, it was not explained why the planned increases in the value of the point in June and October 2020 were not carried out.

The State Audit Office recommends that the reasons for the increase in the value of the point by working hour for the calculation of staff base gross salary be explained in the Operating plan.

Where all the conditions for the payment of salary allowances are met, the basic salary of an employee is increased by salary allowances for overtime work, length of service rendered, difficult working conditions, comparative value of salaries and activities of team leaders.

The salary allowance for the comparative value of salaries paid out within the framework of staff gross salaries totalled HRK 913,562.00. Pursuant to the provisions of Article 14 of the Ordinance on salaries and other income in the CNB, the salary allowance arising from the comparative value of salary is the increase in basic salary for individual employees if there is a justified need to align the level of their salaries with the salaries received at the same or similar positions by employees of commercial banks, other financial institutions or undertakings. The allowance may amount up to 20.0% of the basic salary. The allowance is awarded due to the importance of the activities carried out by the employee or the need to keep or recruit employees to the CNB. Pursuant to the Decision on salary allowances based on the comparative value of salaries, 39 employees were entitled to the allowance. The amount of allowance for individual employees was determined within the range from 4.5% to 20.0% of the basic salary.

The proposals for the eligibility for payment of a salary allowance based on the comparative value of salary state as explanation for the approval of the allowance, among other things, that the allowance is proposed as a result of employees having the required competences, due to the complexity, scope and quality of activities that employees carry out and for the purpose of adequate remuneration for work in order to maintain employee motivation and keep the employee with the CNB.

It does not arise from the explanation that it is necessary to adjust the amount of employee's salaries with the salaries received in the same or similar positions by employees of commercial banks, other financial institutions or undertakings, i.e. it is

not evident that the salary of certain employees with the CNB is lower than the salary received in the same or similar position by the employees of commercial banks, other financial institutions or undertakings. In addition, the explanation does not state the criteria based on which the amount of the allowance is determined which may total up to 20.0% of the basic salary of the employee.

The State Audit Office recommends that the need to adjust the amount of employees' salaries with the salaries received in the same or similar positions by employees of commercial banks, other financial institutions or undertakings be documented and that measurable criteria for determining the amount of salary allowance arising from the comparative amount of salaries be set.

One-off monetary rewards and extraordinary occasional payments were paid within the framework of employees' gross salaries.

One-off monetary rewards were awarded to 331 employee, in the overall amount of HRK 3,282,276.00. Pursuant to the provisions of Article 22 of the Ordinance on salaries and other income in the CNB, in cases where employees carry out their activities in the scope and quality that exceeds the usual performance results, they may be paid a one-off monetary reward for successfully completed tasks outside the framework of the employee's regular activities and/or successful performance of tasks relating to short-term increased scope of activities. The rewards were paid out based on proposals that stated successfully completed tasks relating to short-term increase in the scope of activities as criteria for payment. However, the explanations given in the proposal do not state what such increased scope of activities consists of in relation to the regular scope of activities or the period in which this short-term increase in the scope of activities of individual employees occurred. In addition, neither the Ordinance on salaries and other income in CNB nor the proposals do not state the criteria for determining the amount of the reward considering that the lowest reward paid out amounted to HRK 400.00 and the highest reward to HRK 41,123.00, net, per employee.

Extraordinary occasional payments were made to 263 employees in the total amount of HRK 1,512,440.00. Pursuant to the provisions of Article 34 of the Ordinance on salaries and other income in the CNB, in case of good operating results the Governor may reach a decision on the extraordinary occasional payment in accordance with the basis laid down in that decision. Also, in the case of performance of activities of special interest for the CNB the Governor may reach a decision on the extraordinary occasional payment in the amount laid down in that decision. In December 2020, the Governor reached a Decision on extraordinary payment to CNB employees who with their work under difficult circumstances caused by the earthquake and the COVID-19 pandemic greatly contributed to ensuring business continuity and uninterrupted functioning of the CNB, totalling HRK 1,600,000.00. According to the explanation attached to the said Decision, the planned amount of HRK 200,000.00 for extraordinary occasional payments was increased by HRK 1,400,000.00 in a manner that the funds were reallocated from the funds envisaged for the increase in the value of the point per working hour for the calculation of the basic gross salary by 2.0% in June and October 2020, which was not realised. Payments were made based on the proposal stating as the criterion for payment the performance of activities of special interest for the CNB.

The explanations attached to the proposals for extraordinary occasional payments, listed, among other things, as the reason for approval of payments the dedicated and

conscientious work and contribution to ensuring the CNB's business continuity under difficult conditions caused by the COVID-19 pandemic and the earthquake.

Extraordinary occasional payments were paid out in the amount ranging from HRK 860.00 to HRK 10,734.00, net. The explanations did not state the particular activities of special interest to the CNB that individual employees performed, that is, what the special interest to the CNB consists of. In addition, neither the Ordinance on salaries and other income in the CNB, nor the proposals for extraordinary occasional payments did not stipulate the manner in which the amount of the extraordinary occasional payment is set, that is, there is no measurable criteria in place for the valuation of activities of special interest to the CNB.

The State Audit Office recommends that the proposals for awarding one-off monetary rewards and extraordinary occasional payments explain in more detail the reasons for such payments, identify what is considered as good business result and what activities are of special interest to the CNB to serve as the basis for deciding to award extraordinary occasional payments, as well as to set measurable criteria for determining the amount of one-off monetary rewards and extraordinary occasional payments.

According to the data from the business books, the costs of other gross income totalled HRK 19,958,560.00. In terms of value, a significant share in other gross income was accounted for by the costs of transportation of employees to/from work, in the amount of HRK 3,924,409.00, expenses for subsidies for housing loans, in the amount of HRK 3,220,827.00, expenses for Pension Fund – III pillar, in the amount of 2,317,360.00, subvention of meal, in the amount of HRK 2,203,822.00, use of company cars, parking places and garages, in the amount of 1,944,737.00, jubilee awards, in the amount of HRK 1,032,967.00, severance payments, in the amount of HRK 1,029,198.00 and life insurance premiums, in the amount of HRK 989,814.00.

Pursuant to the provisions of Article 43, paragraph (9) of the Act on the CNB, the Governor adopts general bylaws, regulating the rights, obligations and responsibilities of the CNB employees. In addition, pursuant to the provisions of Article 2 of the Ordinance on salaries and other income in the CNB, employees are entitled to salary and salary compensation in case of temporary inability to work and other income proscribed by law, the said Ordinance and other regulations or employment contracts. Other income of officials and employees is governed by the provisions of the Ordinance on salaries and other income in the CNB and decisions of the Governor.

The Ordinance on salaries and other income in the CNB covers and governs cases of and conditions for calculation and payment of employee remuneration, in particular: one-off holiday allowance, payments for special work achievements, meal allowance, severance payments, jubilee awards, gifts for children of employees, extraordinary financial assistance, daily travel allowances and compensation for expenses, compensation for transportation costs to/from work and extraordinary payments. At the same time the cases of and conditions for the calculation and payment of income for life insurance premiums, Pension Fund - III pillar, health insurance premiums, gifts to employees (Christmas bonuses) and income for expenses related to sport and recreation are governed by decisions of the Governor. Considering that the Ordinance on salaries and other income in the CNB governs the cases of and conditions for payment of income, the said Ordinance should lay down the cases of and conditions for the payment of all income, and decisions may, were

required, be used to lay down a particular income in more detail, for instance determine the criteria for payment, amount of payment, manner of payment, etc.

The State Audit Office recommends that the provisions of the Ordinance on salaries and other income in the CNB govern all types of income and conditions for their payment.

The expenses for the compensation of costs of transportation to/from work totalled HRK 3,924,409.00. This includes the compensations of costs of transportation to/from work, in the amount of HRK 2,982,103.00, compensations of costs of transportation by private car or taxi, in the amount of 711,971.00, that were realised pursuant to the Decision on ensuring the management of CNB's business continuity in relation to extraordinary circumstances arising from the possibility of COVID-19 contagion and other transport expenses in the amount of HRK 230,335.00.

The right to compensation of costs of transportation to/from work was realised by 695 employees by payments in cash, in the total amount of HRK 2,982,103.00. Pursuant to the provisions of Article 31 of the Ordinance on salaries and other income in the CNB, the employees of the CNB are entitled to compensation of transportation costs on local city and intercity lines used by employees to travel to/from work, in the amount of a monthly transport pass.

CNB employees are not entitled to compensation of transportation costs in the amount of a monthly transport pass for transportation to/from work if they have been absent from work during the entire calendar month for which they are entitled salary compensation. In addition, employees with rights pursuant to the Ordinance on the use of vehicles owned by the CNB and rights governed by a special decision of the Governor are not entitled to compensation of costs of transportation to/from work.

The compensation of costs of transportation to/from work is realised for the days of the month when employees do not come to CNB facilities due to sick leave, holiday leave, remote working (home office) or other justified reasons.

The State Audit Office recommends that the manner of calculation of compensation of the costs of transportation to/from work on days of the month when employees do not come to CNB facilities be governed by the Ordinance on salaries and other income in the CNB.

- 4.2. *The CNB accepts the recommendation that the reasons for the increase in the value of the point per working hour for the calculation of base gross salaries of employees be explained in the Operating plan and it states in its Explanation that in the upcoming periods the Operating plan will contain the explanations of the reasons for the increase in the value of the point.*

Further, the CNB accepts the recommendation related to the salary allowance based on comparative amount of the salary and it states in its Explanation that the approval of proposals on salary allowance based on comparative amount of the salary complies with the provisions of Article 14 of the Ordinance on salaries and other income in the CNB. An implementing bylaw will regulate in more detail the procedure for determining and approving salary allowances based on the comparative amount of salaries.

The CNB accepts the recommendation in relation to awarding of one-off monetary rewards and extraordinary occasional payments and states in its Explanation that the amount of extraordinary occasional payments to employees was paid out in accordance with the Decision adopted pursuant to the provisions of Article 10 of the Statute, in conjunction with Article 34, paragraph (2) of the Ordinance on salaries and

other income in the CNB. An explanation is attached to each individual proposal for awarding a one-off reward. Pursuant to Article 2, paragraph (3) and Article 5 of the Ordinance on the management of job performance of CNB employees, the manager competent for the particular organisational unit monitors the work and the performance of employees of the organisational unit throughout the year. As regards the criteria pursuant to which one-off monetary rewards are paid out, pursuant to the provisions of Article 22 of the Ordinance on salaries and other income in the CNB, one-off monetary payments may be paid out for successfully completed tasks outside the framework of the employee's regular activities and/or successful performance of tasks relating to short-term increased scope of activities. An implementing bylaw will regulate in more detail the procedure for determining and approving extraordinary occasional payments and one-off monetary rewards.

The CNB accepts the recommendation relating the regulation of all types of income by the provisions of the Ordinance on salaries and other income in the CNB and states in its Explanation that in accordance with positive regulations internal bylaws are published so as to be available to employees. Pursuant to the provisions of Article 3, paragraph (1) of the Ordinance on the manner of publication of internal bylaws, official announcements and other notifications on internal notice boards of the CNB, internal general bylaws governing the issues of internal organisation, manner of work and systematisation of tasks and activities of the CNB, internal individual bylaws that govern special authorities and obligations of individual employees or groups of employees, related to internal organisation, manner of work and systematisation of tasks and activities of the CNB and official announcements of the CNB are published on CNB's internal notice boards. Further, pursuant to the provisions of Article 3, paragraph (2) of the said Ordinance, information of general interest to CNB employees may also be published on CNB's notice boards. Finally, in accordance with the provisions of Article 4 of the said Ordinance, internal bylaws, announcements and notifications referred to in Article 3, paragraph (1) and (2) of the Ordinance are published on the CNB's internal notice boards and e-notice board. Pursuant to the provisions of Article 6 of the Ordinance on the manner of publication of internal bylaws, official announcements and other notifications on internal notice boards of the CNB, CNB employees are entitled CNB intranet access via smart access cards that are used to access CNB's IT resources. In order to improve the overview of income, the Ordinance on salaries and other income in the CNB shall, as appropriate, also include income that was previously regulated by other types of internal regulations, while implementing bylaws will regulate the procedure for determining and approving such income.

The CNB accepts the recommendation in relation to the calculation of the compensation of the costs of transportation to/from work and states that pursuant to the provisions of Article 31 of the Ordinance on salaries and other income in the CNB, CNB employees are entitled to compensation of transportation costs on local city and intercity lines used by employees to travel to/from work, in the amount of a monthly transport pass. Considering the mentioned possibility of non-taxable payment of the compensation of costs of transport in the amount of a monthly transport pass in cases where employees were not absent from work for the entire month (meaning that they worked at least one day at CNB facilities), and the fact that the option of a monthly transport pass is financially a more favourable option for the CNB than a single trip ticket, the said Ordinance laid down the right of the employee to compensation of the costs of the monthly transport pass and it is therefore not possible to pay out the equivalent of a daily ticket for transport costs. The provisions of the Ordinance on salaries and other income in the CNB shall regulate in more

detail the manner of calculating the compensation of costs of transportation to/from work for those days of the month when CNB employees do not come to CNB facilities.

5. Materials, services and administrative expenses

5.1. Materials, services and administrative expenses totalled HRK 104.732.928,00. In terms of value, the most significant amount was related to the expenses for maintenance of premises, maintenance plant and other equipment, software support and other, in the amount of HRK 50,244,698.00 and outside sources expenses, in the amount of HRK 24,105,986.00. Within the framework of outside sources expenses, other services accounted for HRK 6,176,001.00, of which expenses for providing services of staff totalled HRK 3,459,698.00.

After the completion of open procurement procedure, the Agreement on the provision of services by catering, administrative and delivery staff (hereinafter referred to as 'Agreement') was concluded in January 2020.

The service provider undertook to provide 36 employees to work with the CNB (a head chef, four chefs, assistant chef - intern, seven waiters, two cashiers, six kitchen porters, six administrators, two delivery staff - administrators and seven delivery staff) in the period from 21 March 2020 to 21 March 2021.

The contracted value of the service to be provided was up to the maximum of HRK 4,886,445.00, including value added tax. Unit prices were applied (price per working hour per different position) from the bill of quantities which was a part of the offer. The provisions of Article 3 of the Agreement stipulated that the staff of the service provider will work pursuant to the orders of the CNB in accordance with the working hours laid down by internal bylaws of the CNB, in accordance with the CNB's business needs and nature of activities. Pursuant to the provisions of Article 12 of the Agreement, the services provided are calculated on a monthly basis in accordance with a certified work order.

The framework for working hours of staff by position was laid down in the bill of quantities. Pursuant to the agreement, the actual number of working hours may be higher or lower than the framework number envisaged in the bill of quantities.

Annex I to the Agreement was concluded in April 2020, laying down that due to the COVID-19 pandemic circumstances have arisen due to which the CNB will rotate personnel of the service provider in order to ensure isolation from contagion and maintain business continuity in the provision of contracted services. Annex II to the Agreement was concluded in March 2021, extending the term of the Agreement until 14 May 2021. Pursuant to the Agreement, services were provided in the amount of HRK 3,221,246.00, including value added tax.

The audit of the invoices submitted by the service provider for expenses for services by catering, administrative and delivery staff for April and May 2020 established that services were calculated and paid for the contracted number of workers during regular working hours. In accordance with the certified record of working hours attached to the invoice for April 2020, the CNB calculated and paid HRK 361,280.00 for the work of 34 employees working regular working hours (5 304 working hours), and according to the record of working hour for May 2020, the CNB calculated and paid HRK 352,450.00, including value added tax, for the work of 33 employees (5 248 work hours).

From the documentation submitted together with the invoices for April and May 2020 it is evident that due to the circumstances connected with the outbreak of COVID-19 pandemic, CNB restaurants worked at reduced capacity from the end of March 2020 to 17 May 2020 and no hot meals were prepared.

In addition, the records of working hours during the relevant period, that is, for April and May 2020, attached to the submitted documents showed that contracted services were provided by four employees over 37 work days in April 2020 (296 working hours), which in accordance to the agreed price per hour amounts to HRK 18,168.00, while in May 2020, the contracted services were provided by 13 employees over 168 days (1 344 working hours), which amounts to HRK 75,536.00. It is evident from the aforesaid that the expenses for services by catering, administrative and delivery staff were paid in accordance with submitted invoices for contracted services, although the scope of the services provided was smaller.

As regards the calculation of expenses for services of providing staff, it is stated in the CNB's Explanation that amid the conditions of the COVID-19 pandemic, with a view to maintain business continuity and performance stability across all activities employees were rotated in different teams, which applied equally to CNB employees and outsourced staff, and that accordingly the calculation of expenses for staff services for April and May 2020 was not reduced.

Pursuant to Article 10 of the CNB Statute, the Governor adopted the Decision on the manner of pricing food and beverages in CNB restaurants in December 2018 which lays down the expenses included in the calculation of the price of food and beverages provided by the CNB restaurants to employees and for entertainment purposes, which, among other things, include the costs of restaurant staff: head chef, kitchen porter, junior chef - intern and cashier. The calculation for February, March and April 2020 does not include the total outside sources expenses in the price of food and beverages but only a portion, which is contrary to the Decision of the Governor. In this way, the price of food and beverages was reduced.

The State Audit Office recommends that the services of external staff be paid in accordance with actually provided services pursuant to the provisions of the Agreement and to calculate the price of food and beverages in CNB restaurants in accordance with the Decision on the manner of pricing food and beverages in CNB restaurants.

- 5.2. *The CNB accepts the recommendation regarding the payment of services of external staff and in its Explanation explains that under the extraordinary work conditions, specific for 2020 and a part of 2021 (coronavirus pandemic and earthquakes) it was decided to rotate teams of external staff with an aim to provide key support to business continuity, that is, to organise distance working for a share of external staff, which was equivalent to the procedure primarily applied to CNB employees. Otherwise, the continuity of providing key support could not have been adequately realised and the risk of local transmission of coronavirus would have been unacceptably high.*

A force majeure clause will be contracted for all agreements on services of ancillary staff, as well as all other procurement agreements where such situations are relevant, i.e. where this is deemed justified and applicable, in order for such situations to be broadly regulated. Amendments will be made accordingly to internal bylaws regulating business processes which include external entities as providers of business processes regulated by these bylaws. These changes strive to regulate

procedures in extraordinary situations to which the contractual provisions on force majeure that are embedded in the agreements based on which external staff will be employed relate.

6 Investments in fixed assets

- 6.1 Investments in fixed assets were planned in the amount of HRK 132,875,000.00 but were realised in the amount of HRK 44,609,084.00. The amount of realised investments was HRK 88,265,916.00 or 66.4% short of the plan. Significant investments are related to the procurement of IT equipment and software, in the amount of HRK 38,117,187.00, or 85.4% of total investments in fixed assets and the procurement of office equipment in the amount of HRK 4,725,858.00 or 10.6% of total investments in fixed assets. In terms of value, the most significant investment was planned for the purchase of land for the construction of the CNB vault, in the amount of HRK 71,940,000.00 or 54.1% of total planned investments in fixed assets. The investment was not realised in 2020 due to the need to resolve complex property and legal issues pertaining to the plot.

The provisions of Article 4 of the Act on the Management of State-Owned Properties of the Republic of Croatia (Official Gazette 94/2013, 18/2016 and 89/2017 – Constitutional Court Decision) that was in force until May 2018, listed, among other things, the buildings of the CNB as a type of state-owned property.

The said Act governed the management and disposal of assets owned by the Republic of Croatia, different types of state-owned property, the principles of management of state-owned property, documents for the management of state-owned property, the manner of and the conditions for the management and disposal of properties that constitute state assets, etc.

As of May 2018, the Act on State Property Management (Official Gazette 52/2018) lays down the manner of management and the documents for the management of assets owned by the Republic of Croatia, the manner of and the conditions for the management of shares and business holdings, real estate property and movable property which constitutes state-owned assets and other related issues. Pursuant to the provisions of Article 6, paragraph (1) of this Act, it does not apply to the assets of the Republic of Croatia which are, pursuant to special regulation, managed by other bodies of the Republic of Croatia, legal persons of which it is a member or founder, and pursuant to the provisions of paragraph (2) the assets of legal persons of which it is a member or founder do not constitute state assets in the sense of Article 3 of the Act, that are managed by the Ministry of State Property (now Ministry of Physical Planning, Construction and State Assets) The said assets are managed by these legal persons.

Given that the CNB is not subject to the provisions of the aforementioned Act, it is necessary to normatively regulate the management of CNB's assets used in its regular operations, i.e. which are not directly used to achieve the objectives and carry out the tasks prescribed by law governing the operation of the CNB.

The State Audit Office recommends that activities be undertaken to normatively regulate the acquisition, management and disposal of assets (real estate property, movable property and equipment) used in regular CNB operations i.e. which are not directly used to achieve the objectives and carry out the tasks prescribed by law governing the operation of the CNB.

6.2 *The CNB accepts the recommendation in relation to the regulation of the acquisition, management and disposal of assets and states in its Explanation that further to the provisions of its internal general bylaws and positive legislation that regulate the handling of individual types of mentioned assets, it will adopt an umbrella internal bylaw that will additionally regulate the important aspects of this segment of operations.*