HRVATSKA POŠTANSKA BANKA D.D.

Separate financial information for the six-month period ended June 30, 2022

Zagreb, November 2022

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Responsibilities of the Management Board for the preparation and approval of separate financial information for six-month period ended June 30, 2022

Management Board is responsible for preparation of separate financial information for six-month period ended June 30, 2022 that give a true and fair view of the financial position of the Bank and their results in accordance with accounting regulations applicable to banks in the Republic of Croatia and is responsible for keeping the proper accounting records required for the preparation of these financial information at any given time. The Management Board has overall responsibility for taking such measures to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Management Board is responsible for selecting appropriate accounting policies that comply with applicable accounting standards and for their consistent application; making reasonable and prudent judgments and estimates; and preparing the financial information on an going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is obliged to submit the financial information for the period ended June 30, 2020 to the Supervisory Board for approval. If the Supervisory Board gives consent to the interim financial information for the period ended June 30, 2022, they are approved by the Management Board and the Supervisory Board of the Bank. Separate financial information for six-month period ended June 30, 2022 are presented on following pages were approved by the Management Board on November 7, 2022.

As a sign of confirmation, interim financial information are signed by persons authorized for representation, as follows:

Signed on behalf of Hrvatska poštanska banka, d.d.

Marko Badurina

President of the Management Board

Ivan Soldo

Member of the Management Board

Anto Mihaljević

Member of the Management Board

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Review report

To the Shareholders of Hrvatska poštanska banka d.d.

Introduction

We have reviewed the accompanying separate financial information that comprises separate profit and loss statement and separate statement of comprehensive income of Hrvatska poštanska banka d.d. ("the Bank") for the six-month period ended 30 June 2022, significant accounting policies and other explanatory information („financial information"). Management is responsible for the preparation and presentation of these financial information in accordance with the basis of preparation described in the Note 1 "Basis of preparation of financial information" and accounting policies described in the Note 2 "Significant accounting policies". Our responsibility is to express a conclusion on this financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information for the six-month period ended 30 June 2022 are not prepared, in all material respects, in accordance with basis of preparation described in the Note 1 "Basis of preparation of financial information" and accounting policies described in the Note 2 "Significant accounting policies".

Emphasis of Matter - Basis of Accounting and Restrictions on Distribution and Use

Without modifying our conclusion, we draw attention to the Note 1 "Basis of preparation of financial information" and Note 2 "Significant accounting policies", which describes the basis of accounting. This financial information is prepared to support Hrvatska poštanska banka d.d. in meeting the requirements of the Croatian National Bank for the calculation of the capital requirement. As a result, this financial information may not be suitable for another purpose. Our report is intended solely for the Hrvatska poštanska banka d.d. and the Croatian National Bank and should not be distributed to or used by parties, unless it is required by the low.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
7 November 2022

Siniša Dušić
Member of the Management Board, Certified auditor

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

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Separate profit and loss account for six-month period ended June 30, 2022

in HRK

Item	30.6.2021	30.6.2022
Interest income	287,009,820	266,965,246
(Interest expenses)	18,919,654	14,239,907
(Expenses on share capital repayable on demand)	-	-
Dividend income	1,077,695	1,676,379
Fees and commissions income	218,458,416	236,276,121
(Fees and commissions expenses)	130,051,416	141,037,670
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	169,597	2,286,048
Gains or (-) losses on financial assets and liabilities held for trading, net	27,721,428	(29,856,223)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	29,175,562	124,073
Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	-	-
Exchange rate differences [gain or (-) loss], net	(4,115,310)	(4,253,473)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
Gains or (-) losses on derecognition of non-financial assets, net	-	-
Other operating income	4,909,411	17,240,661
(Other operating expenses)	5,914,838	8,306,997
Total operating income, net	**409,520,711**	**326,874,258**
(Administrative expenses)	191,774,124	209,336,027
(Cash contributions to resolution boards and deposit guarantee schemes)	6,958,179	11,612,046
(Depreciation)	33,724,172	35,400,230
Modification gains or (-) losses, net	(1,457,954)	(3,666,444)
(Provisions or (-) reversal of provisions)	22,472,806	18,654,644
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(24,992,891)	(9,659,323)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	-	-
Negative goodwill recognised in profit or loss	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-
Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
Profit or (-) loss before tax from continuing operations	**178,126,367**	**57,864,190**
(Tax expense or (-) income related to profit or loss from continuing operations)	31,449,818	30,270
Profit or (-) loss after tax from continuing operations	**146,676,549**	**57,833,920**
Profit or (-) loss after tax from discontinued operations	-	-
Profit or (-) loss before tax from discontinued operations	-	-
(Tax expense or (-) income related to discontinued operations)	-	-
Profit or (–) loss for the year	**146,676,549**	**57,833,920**
Attributable to minority interest [non-controlling interests]	-	-
Attributable to owners of the parent	146,676,549	57,833,920

The significant accounting policies and other notes on following pages form an integral part of these financial information.

Separate statement of other comprehensive income for six-month period ended June 30, 2022

HPB
HRVATSKA POŠTANSKA BANKA

in HRK

Item	30.6.2021	30.6.2022
Income or (-) loss for the current year	146,676,549	57,833,920
Other comprehensive income	(15,771,394)	(348,143,012)
Items that will not be reclassified to profit or loss	(457,723)	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Fixed assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of entities accounted for using the equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities measured at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	(457,723)	-
Items that may be reclassified to profit or loss	(15,313,671)	(348,143,012)
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Cash flow hedges [effective portion]	-	-
Hedging instruments [not designated elements]	-	-
Debt instruments at fair value through other comprehensive income	(18,675,208)	(425,072,380)
Fixed assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	3,361,537	76,929,368
Total comprehensive income for the current year	130,905,155	(290,309,092)
Attributable to minority interest [non-controlling interest]	-	-
Attributable to owners of the parent	130,905,155	(290,309,092)

The significant accounting policies and other notes on following pages form an integral part of these financial information.

1. BASIS FOR THE PREPARATION OF FINANCIAL INFORMATION

Hrvatska poštanska banka d.d. Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva ulica 4, Zagreb. As of June 30, 2022, the Republic of Croatia and companies owned by it together own 77.35 percent (2021: 77.42 percent) of the Bank's shares, while the remaining 22.65 percent (2021: 22.58 percent) share is publicly traded.

Separate financial information for the six-month period ended on June 30, 2022 was prepared for the purpose of supporting the Bank in meeting the requirements of the Croatian National Bank for calculating the capital requirement.

Separate financial information for the six-month period ended on June 30, 2022 are consisted of Profit and loss account and Statement of other comprehensive income of Hrvatska poštanska banka d.d. („Bank“) for the six-month period ended June 30, 2022, significant accounting policies and other explanatory information (together „financial information“). Financial information for the six-month period ended on June 30, 2022 are presented for the Bank.

This financial information have been prepared in order to fulfill requirements of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 and meeting the requirements of the Croatian National Bank for the calculation of capital requirements and therefore do not represent the full scope of the statements.

This financial information were approved by the Management Board on November 7, 2022 for submission to the Supervisory Board.

Financial information has been prepared in accordance with the accounting policies of Hrvatska poštanska banka d.d. and comply with the applicable accounting regulations applicable to banks in the Republic of Croatia. The main accounting policies applied in the preparation of these financial information are summarized below. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards, in the description of the Bank's accounting policies, individual Standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at June 30, 2022.

The accompanying financial information are prepared in accordance with statutory requirements and only as general information. Therefore, users are advised not to rely exclusively on them in making any decisions, and to conduct further examinations prior to making a decision.

Financial information are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, at fair value through other comprehensive income, derivative financial instruments and property and repossessed assets except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at revaluation model, amortized or historical cost.

Compiling the financial information requires the Management Board to make judgments, estimates and assumptions that affect the application of policies and the stated amounts of assets and liabilities and the disclosure of potential liabilities on the date of preparation of the financial information, as well as the amounts of income and expenses for the period. Estimates and related assumptions are based on historical experience and various other factors believed to be realistic under existing circumstances, and information available at the date of preparation of the financial information, the result of which forms the basis for judging the carrying amount of assets and liabilities that are not directly observable from other source. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared in accordance with the Bank's accounting policies and regulations of the CNB. In accordance with the CNB regulations, the financial statements of banks and other credit institutions are prepared in accordance with the accounting regulations for banks in the Republic of Croatia based on the principles set out in International Financial Reporting Standards (IFRS) adopted by the European Union applicable on June 30, 2022. This financial information has been prepared in accordance with the above regulations for banks.

CNB's accounting regulations are based on International Financial Reporting Standards adopted by European union. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Suspended interest represents already accrued unpaid interest on asset for which individual impairment has been recognized. For the part of the exposure for which the passage of time of default is longer than two years the Bank carry out the full impairment of accrued unpaid interest through profit and loss, suspend the following accrual in the statement of financial position and present the interest in the off-balance up until the customer makes the payment in cash. The stated is not in accordance with the IFRS 9 „Financial instruments“ which requires the interest income from impaired financial assets to be accrued using the method of the effective interest rate.
- In line with CNB Decision on classification of exposures into risk stages and the manner in which credit losses are determined which was put into force at 1 January 2018 („Decision on exposure classification“), CNB prescribes minimum provision for impairment loss for certain exposures for which impairment has been specifically recognized, that may be different from an impairment loss calculated in accordance with IFRS.
- In line with the Decision on exposure classification the CNB prescribes the minimum impairment factors/haircuts and collection deadlines for each collateral type for purposes of estimating future cash flows on the basis of collection through collateral. The stated future cash flows can be different from the future cash flows calculated in accordance with the IFRS.
- In line with the Decision on exposure classification the CNB prescribes minimum total exposure impairment of risk sub-stages A-1 and A-2, which can be different from the impairment loss calculated in accordance with the IFRS.
- In line with the CNB’s Decision on Provisions for Court Cases against the Credit Institution of March 31, 2010 there are minimum requirements for the provisions for court cases the credit institution is obliged to fulfill. In line with the Decision a credit institution must diversify court cases into risk categories depending on the loss probability and form provisions accordingly. However, in certain cases required reserves may differentiate from the ones calculated in accordance with the IFRS.

Significant accounting policies applied in preparation of these financial information are set out hereafter.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Functional and Presentation Currency

Bank's financial information are presented in Croatian kuna (HRK), which is the functional currency.

b) Interest Income and Expense

Interest income and expense are recognized in the Profit and loss ("P&L") report as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through other comprehensive income, using the effective interest rate method.

Such income and expense are presented as interest and similar income or interest expense and similar charges in the P&L report. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

For financial assets measured at amortized cost, calculation the effective interest rate is based on gross book value, with the exemption of the following:

(a) purchased or created financial assets less credit losses. For such financial assets, the entity applies the effective interest rate adjusted for credit risk to the amortized cost of the financial asset from initial recognition;

(b) financial assets that were neither purchased nor created financial assets net of credit losses, but subsequently became financial assets net of credit losses. For such financial assets, the entity applies the effective interest rate to the amortized cost of the financial assets in the following reporting periods.

Modification of contracted cash flows

If contracted cash flows from financial assets were to be renegotiated or modified in some other manner, whereby such new deal or modification do not lead to derecognition of the financial assets, the Bank recalculate gross book value of the financial assets and in the profit and loss recognize the gain or loss. Gross book value of financial assets is recalculated as present value of renegotiated or modified contracted cash flows discounted by initial effective interest rate of the financial assets (for purchased or originated credit impaired financial assets discounted by effective credit impaired interest rate) or if necessary by credit impaired effective interest rate. Book value of modified financial assets is impaired by arisen costs or fees, which are depreciated during the remaining period of the modified financial assets. When the modification of conditions or modification of contracted future cash flows leads to derecognition of existing financial assets and at the same time there are impairment indicators of new financial assets, it represents the purchased or originated credit impaired financial assets (so called POCI). Once classified into the POCI category, the assets remain in it for its remaining lifetime.

c) Fees and Commissions Income and Expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Bank. Fee and commission income and expense are recognized in the P&L report when the related service is performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Fees and Commissions Income and Expense (continued)

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

Asset management fees related to investment fund management are recognized on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

d) Dividend Income

Dividend income on equity investments is recognized in the P&L report when the right to receive dividends is established.

e) Gains Less Losses from Financial Instruments at Fair Value in P&L and Financial Instruments Measured at Fair Value through Other Comprehensive Income

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses from financial instruments at fair value through other comprehensive income include realized gains and losses from financial instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income include debt and equity securities.

Profit or loss on financial assets that are measured at fair value through other comprehensive income are recognized in other comprehensive income, with the exception of expected credit losses and gains and losses from exchange differences, until the financial asset is derecognized or reclassified. Upon derecognition of debt securities, cumulative profit or losses previously recognized in other comprehensive income are reclassified from equity to the profit and loss account as a reclassification adjustment.

Upon derecognition of equity securities, cumulative profit or losses previously recognized in other comprehensive income are not reclassified from equity to the profit and loss account.

f) Gains Less Losses Arising from Dealing in Foreign Currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) *Foreign Currencies*

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognized in the profit and loss account. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not recalculated.

The fair value of financial assets through other comprehensive income denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The official middle exchange rate as of June 30, 2022 was: 7.528090 = 1 EUR; 7.163469 = 1 USD; 7.507819 = 1 CHF.

The official middle exchange rate as of June 30, 2021 was: 7.491244 = 1 EUR; 6.290406 = 1 USD; 6.835700 = 1 CHF.

h) Financial instruments

i) Classification

The Bank classifies all financial assets in terms of asset management business model, which is measured as follows:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss account (FVPL).

Financial liabilities, except liabilities based on loans with interest rates lower than market interest rates, financial guarantees and financial liabilities determined at fair value through the profit and loss account, are measured at amortized cost. The basis for classification depends on the entity's business model and the characteristics of the contractual cash flow of the financial asset. Management Board determines the classification of financial instruments upon initial recognition.

Business model assessment

The Bank determine business models in a manner that best reflects management of financial assets group in order to achieve the business purpose.

Business models of the Bank are not determined at individual level of each instrument, but at aggregate level of the group of the financial instruments.

Business model assessment is based on reasonably expected scenarios. If cash flows after initial recognition are realized in a manner different than the initially expected, the Bank do not change the classification of the remaining financial assets held in that business model, but in the future include new information into the assessment of newly approved or purchased financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

i) Classification (continued)

In accordance to IFRS 9, the Bank classify its financial assets in accordance with the following business models:

- Business model with the purpose of holding the assets in order to collect contractual cash flows

Financial assets held within this business model are managed with the intent to generate cash flows by collecting contractual payments during the instrument's lifetime. The Bank manage the assets within the portfolio in order to collect certain cash flows (instead of managing the entire portfolio yield that is realized by holding and also by selling the assets).

- Business model with the purpose of collecting cash flows and also by selling the financial assets

Within this business model the Bank hold financial assets, which purpose is to collect contracted cash flows and also to sell the financial assets. Within this business model the key management personnel makes the decision that the goal of the business model is realized by collecting cash flows and also by selling the financial assets. One of the goals of the business model is managing daily needs related to liquidity in order to keep a certain interest yield profile or that the duration of the financial assets corresponds to duration of liabilities financed by those assets.

- Other business models

Financial assets are measured at fair value through profit and loss account if they are not held within the business model with the intent of holding financial assets to collect contracted cash flows or within the business model with the intent of collecting contracted cash flows and also by selling financial assets. The business model which consequently has measurement at fair value through profit and loss account is the one within the Bank manage the financial assets with the intent of generating cash flows by selling the assets. The Bank make decision based on fair value of the assets and manage it in order to realize the fair value.

Financial Markets Division acquires different types of financial assets, whereby the intent for their acquisition is not unambiguous. Within the context of the IFRS 9 application the model of acquisition of financial assets and its placement within business models will be allocated between Financial Markets Division and Assets and Liabilities Management Office. Financial Markets Division when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Division more closely describes with the Internal act conditions and manner of acquiring financial assets and its placement into each category in accordance with the chosen business model.

Assets and Liabilities Management committee makes decisions, on recommendation of Assets and Liabilities Management Office, on financial assets acquisitions within the business model holding to collect and sale. Investments related to this business model will arise from the Bank's investments into financial assets with the intent of liquidity management – general strategy. Transactions related to the stated business model are carried out by Financial Markets Division by directive from Assets and Liabilities Management Office. The Bank places financial instruments within this business model mainly with the purpose of keeping regulatory obligations and prescribed ratios or liquidity reserves in accordance with internal and external limits.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

i) Classification (continued)

Solely Payments of Principal and Interest test (so called SPPI test)

As the next step of the classification process the Bank asses contracted conditions of financial assets in order to conclude whether the stated assets have contracted cash flows which are solely payments of principal and interest on unpaid amount of the principal. For purposes of applying this test, the 'principal'' is fair value of financial assets at initial recognition, however that amount of the principal can be changed during the financial assets' lifetime (i.e. in case of paying off the principal). The interest covers the fee for time value of cash, for credit risk related to unpaid amount of the principal during certain period and other basic risks and loan costa and also for profit margin. In order to assess the SPPI test result, the Bank apply assessment and take into consideration important factors such as the currency of financial assets.

However, if contracted cash flows of financial assets are not solely payments of principal and interest on unpaid amount of the principal, such financial assets are subsequently measured at fair value through profit and loss account.

Financial assets at fair value through profit and loss account

This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the Management Board had initially recognized at fair value through profit and loss account, or those that have to be recognized at fair value through profit and loss account in accordance with IFRS 9. The Bank recognizes financial assets and liabilities at fair value through profit and loss account when:

- Assets and liabilities are managed, measured or are internally presented at fair value,
- Accounting mismatch is eliminated or significantly reduced by recognition, which would otherwise arise, or
- Assets and liabilities contain certain derivative which significantly changes cash flows which would otherwise arise from the contract.

Financial assets at fair value through profit and loss account include equity securities, debt securities, shares in investment funds and derivative financial instruments held for trading.

Financial assets held for trading relate to assets purchased or issued mainly for transactions which realize profit in a short-term.

Changes in fair value of these assets are recognized through net income from trading.

Financial assets at amortized cost

The Bank measure financial assets at amortized cost if both following conditions are met:

- Financial assets are held within business model with the intent of holding financial assets in order to collect contracted cash flows
- Based on contracted terms of financial assets for certain dates, cash flows arise which are solely payments of principal and interest on unpaid amount of the principal.

Financial assets at amortized cost of the Bank arise when the Bank approve cash instruments to clients with no intention of trading with those receivables and include loans and receivables from banks, loans and receivables from customers, as well as mandatory reserve at Croatian National Bank and debt securities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

i) Classification (continued)

Financial assets at fair value through other comprehensive income

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

- Financial assets are held within business model with the intention of collecting contracted cash flows and also by selling the financial assets
- Based on contract terms of financial assets on certain dates arise cash flows which are solely payments of principal and interest on unpaid amount of the principal.

Gains and losses from financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income, except for gains or losses from impairment and gains and losses from exchange rate differences, up to derecognition of financial assets or its reclassification. If financial assets were derecognized, the cumulative gains or losses previously recognized through other comprehensive income are reclassified from equity into profit and loss account as reclassification adjustment.

Interests calculated by the effective interest rate are recognized in the profit and loss account.

Assets measured at fair value through other comprehensive income include debt securities.

Investments in an equity instruments which are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, Bank may, at initial recognition, make an irrevocable election to present subsequent changes in the fair value in other comprehensive income. The election is possible for each separate investment. Subsequent changes in the fair value will be presented in other comprehensive income without option of recycling to profit or loss statement.

For these equity instruments Bank will in profit or loss statement recognize dividends from that investments if the entity's right to receive payment of the dividend is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably

Other financial liabilities

Other financial liabilities cover all financial liabilities not measured at fair value through profit and loss account.

ii) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit and loss, financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income are recognized on the settlement date.

The Bank derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. At full derecognition of financial assets, the difference between book value (determined at derecognition date) and received consideration is recognized in the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

ii) Recognition and Derecognition (continued)

The Bank derecognize financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

Realized gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

iii) Initial and Subsequent Measurement

Financial assets and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost and are subsequently measured applying internal models of fair value estimation.

Loans and receivables and held to maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortized cost.

Classification in risk categories

The Bank classifies loans into risk groups in accordance with the Decision on classification of exposure into risk groups and the method of determining credit losses.

Thus, the Bank classifies loans that, in accordance with the Decision, are not in default status into risk group A. In accordance with the provisions of IFRS 9, the Bank also allocates into risk subgroup A-1 placements for which it has been determined that, after initial recognition, the credit risk of an individual debtor's exposure did not increase significantly, and into the risk sub-group A-2 placements for which it was determined that after the initial recognition the credit risk of an individual debtor's exposure increased significantly. For such exposures, the Bank carries out appropriate write-downs and exposure provisions in an amount equal to expected credit losses in the twelve-month period for risk subgroup A-1, i.e. expected credit losses during the lifetime for risk subgroup A-2. The Bank classifies loans that it assesses as partially recoverable into risk group B, depending on the percentage of loss: into risk group B-1 (loans for which the determined loss does not exceed 30% of the principal amount of the placement), into risk group B-2 (loans for which the determined loss amounts to more than 30% to 70% of the principal amount of the placement), into risk group B-3 (loans for which the determined loss amounts to more than 70% and less than 100% of the principal amount of the loan). The Bank classifies loans that it considers to be completely irrecoverable into risk group C.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

iii) Initial and Subsequent Measurement (continued)

Expected credit losses

The Bank base its assessment of expected credit losses on loans on International Financial Reporting Standard 9 (IFRS 9), analyzing quantitative and qualitative information.

The analysis of credit risk is comprehensive and is based on multiple indicators, for example, whether a certain indicator is important and whether its importance can be compared with other indicators depends on the type of product, characteristics of financial instruments, debtor, etc. However, some indicators cannot be determined on level of individual instruments, and in that case the Bank evaluates the indicators for the corresponding parts of the portfolio of financial instruments.

Furthermore, the credit quality analysis foresees for each reporting date a comparison of the credit quality of the financial instrument at the time of valuation and at the time of initial recognition or acquisition, all in order to determine whether the criteria for classification in "Level 2" are met.

The Bank differentiates the criteria to indicate a significant increase in credit risk according to different exposure portfolios:

a) Exposure portfolio towards retail
- Existence of due debt over 30 days
- Customer blockade longer than 10 days
- Exposure belongs to the debtor for whom early warning signals have been identified
- Approved profit restructured exposure

b) Exposure portfolio towards legal persons
- Existence of due debt over 30 days
- Customer blockade longer than 10 days
- Decrease in financial position
- Exposure belongs to the debtor for whom early warning signals have been identified
- Approved profit restructured exposure

c) Exposure portfolio towards central states and banking financial institutions
- Change (decrease) in customer’s credit rating

In addition, while estimating expected losses an important element is also including future factors through macroeconomic scenarios.

Key data for measuring expected credit losses are the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).

Expected credit losses for exposures (ECL) in ''Stage 1'' are calculated as product of 12-month PD, LGD and EAD.

Expected credit losses for exposures (ECL) in ''Stage 2'', that is lifetime expected credit losses are calculated as product of lifetime PD, LGD and EAD discounted at reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

iii) Initial and Subsequent Measurement (continued)

In 2021, new client-level PD models for the retail and business segment were developed and implemented.

The PD model for entrepreneurs was adopted by the Decision of the Management Board in June, and the PD model for the population segment in December 2021.

When calculating the lifelong PD for the retail and business segment, the Bank models the risk parameter PD based on transition matrices. The lifetime PD value is the cumulative value of the PD risk parameter limit values depending on the exposure tenor. Exposures to financial institutions and central governments use an external investment rating approach.

The LGD risk parameter is modeled based on the analysis of transactions with default status for exposures to legal entities and individuals. The modeling of the LGD risk parameter for exposures to central governments and financial institutions is based on historical collection rates published by credit rating agencies.

Considering the criteria, it applies when estimating the recoverable amount of placements, the Bank divides placements into placements that belong to the portfolio of small loans and placements that do not belong to the portfolio of small loans.

Small loans portfolio placements are total placements and off-balance liabilities to one customer or group of related persons for which the total balance is in the gross amount (without impairment or provision) at estimation date lower than HRK 1,000,000.

Modeling of the EAD risk parameter, that is exposure at default depends on the profile of repayment.

Calculation of exposure at default is generated monthly and summed annually where necessary.

When estimating expected credit losses for off-balance liabilities, conversion factor 1 is used.

Expected credit losses on individual basis

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- Debtor's creditworthiness,
- Debtor's timeliness in meeting their obligations, and
- Collateral quality.

In this respect, credit rating of the debtor and/ or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, including info on significant increase in credit risk, the Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement’s book value. Required impairments are determined in this way. Bank complies with regulations from Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

iii) Initial and Subsequent Measurement (continued)

From the beginning of 2021, the Bank, in accordance with regulatory provisions contained in the Decision on Amendments to the Decision on Implementation of Regulation (EU) No. 575/2013 in the field of valuation of assets and off-balance sheet items and calculation of regulatory capital and capital requirements and Guidelines on changing the definition of default the obligation under Article 178 of Regulation (EU) No 575/2013) applies materiality thresholds of HRK 750 for the population and HRK 3,750 for the non-population, with a relative threshold of 1% for all segments. In addition, in July 2021, the Bank introduced changes in the recognition of non-compliance status for households, where it raised the recognition from the product level to the customer level.

Expected credit losses on portfolio basis

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

iv) Determination of Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, on the main or most favorable market under existing market conditions, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account as they value the asset or liability at the measurement date.

Fair value for measurement and/ or disclosure purposes in these separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

iv) Determination of Fair Value of Financial Instruments (continued)

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date, taking into account current market conditions, its own credit risk and the current creditworthiness of the counterparties.

v) Reclassification

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. Bank does not reclassify financial liabilities.

Reclassifications between categories depend on the category in which the financial instrument was initially recognized. If the Bank reclassifies financial assets in accordance it will apply the reclassification prospectively from the reclassification date. The Bank will not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

v) Reclassification (continued)

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

i) Specific Financial Instruments

Cash and Cash Equivalents

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

Derivative Financial Instruments

The Bank uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading.

Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the P&L report, unless there is no reliable measure of their fair value.

Treasury Bills and Debt Securities

Treasury bills and debt securities that the Bank holds for the purpose of short-term profit taking are classified as at fair value through profit or loss. If the intention is to collect contractual cash flows for the purpose of long-term profit taking, financial assets are classified as assets at fair value through other comprehensive income, and are valued at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Specific Financial Instruments (continued)

Equity Securities and Investments in Open-End Investment Funds

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

Placements with Banks

Placements with banks are classified as loans and receivables and measured at amortized cost less impairment losses.

Loans and Receivables from Customers

Loans and receivables from customers are presented net of impairment losses. Purchased loans that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets. In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in Subsidiaries

In the Bank's separate financial reports, investments in subsidiaries are recorded at cost.

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the P&L report over the period of the borrowings as interest.

Repurchase Agreements and Linked Transactions

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are presented as liabilities to either banks or customers.

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

j) Corporate tax

Corporate tax expense represents the sum of the current and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the P&L report and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial reports and the corresponding tax bases used in the computation of taxable profit.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Corporate tax (continued)

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized up to the probable amount of taxable profit available for use of deductible temporary differences and tax loss carryforwards. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the amount that the Bank expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

k) Property and Equipment

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

Recognition and Measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional valuator.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Property and Equipment (continued)

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the P&L report on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.
The estimated useful lives are as follows:

	June 30, 2022	**2021**
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	2-4 years	3-4 years
Motor Vehicles	5 years	5 years
Other Assets*	10 years	10 years

**Other assets refer to air conditioning and heating equipment*

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

l) Investment property

Investment property include the Bank's investments in real estate with the intention of selling the same and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any gain or impairment loss from the change in fair value is recognized in the income statement as occurred. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

m) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IAS 38. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred.

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Intangible Assets (continued)

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	June 30, 2022	2021
Leasehold Improvements	4-10 years*	4-10 years*
Software	3-10 years	3-10 years
Licenses	3-10 years	3-10 years

** Leasehold improvements are amortized in line with the duration of lease contract, average period of amortization is 5 to 7 years.*

n) Impairment of Non-Financial Assets

The value of an asset is considered impaired if its book value exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is its fair value less costs to sell or its value in use, whichever is higher. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (“cash-generating units”). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Non-financial assets that have been impaired are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

o) ***Non-Current Assets Held for Sale***

The Bank initially recognize (classify) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at fair value in accordance with the applicable standards for the type of asset, less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank occur and if there is evidence that the Bank will continue in line with the plans to continue selling the same.

The Bank does not perform depreciation of assets held for sale. Impairment losses arising on the subsequent measurement of assets is recorded in the P&L report of the Bank. Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the P&L report at the time of sale.

If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank does not recognize those assets as assets held for sale.

Bank does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the P&L report.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Repossessed asset in exchange for uncollected receivables

The Bank initially recognize repossessed asset in accordance with IAS 40 “Investment Property” and account for it as described in part Investment property. In case that repossessed asset will be intended for sale and it meet the criteria of relevant IFRS 5 “Non-current Assets Held for Sale”, the asset will be recognized and accounted for as long-term tangible asset held for sale.

Only exceptionally, if repossessed asset will be used in regular business activities of the Bank, it can be decided, at acquisition, that the asset will be put in use and accounted for in accordance with IAS 16 “Property, plant and equipment”, as described in part Property and Equipment.

At initial recognition of repossessed assets, the cost of acquisition will be considered the lower amount between the net book value of the financial assets, whereby the foreclosed assets or assets received for the purpose of debt payment and the fair value of repossessed assets, will be considered.

q) *Provisions for Liabilities and Expenses*

The Bank recognize a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis. Provision for liabilities and charges represent the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

r) *Leases*

The contract is, or contains, lease if it conveys the right to use an underlying asset for the defined period of time in exchange for consideration. For such contracts the Bank recognizes right-of-use asset and lease liability.

Leases where the Bank is lessors in which they retain all the risks and awards related to the ownership, comprise all the tangible and intangible asset at purchase cost less accumulated depreciation or amortization. Rent income from operating lease is recognized in profit or loss statement using straight-line method during the lease period. Initial costs, directly related to the operating lease contract, the Bank recognizes over time in line with the recognition of rent income. For the duration of a lease contract, the Bank recognizes depreciation or amortization and impairment losses on the leased asset aligned with the amortization method applicable for the similar asset owned by the Bank.

For lease contracts where the Bank is a lessee, lease liability is measured at the present value of future lease payments, discounted at incremental discount rate of the lessee at the date of initial recognition. Lease liability is recognized in contracted currency.

On the other hand, the Bank as a lessee recognizes Right-of-Use Asset (RoU) at the date of initial recognition by which the right to use the underlying asset is measured at the amount of present value of future lease payments adjusted for any accruals and prepayments related to the lease contract recognized in the statement of financial position immediately before the date of initial recognition. The Right-of-Use Asset is recognized in Bank’s functional currency and is depreciated on a straight-line bases over lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Leases (continued)

Subsequent measurement of the lease liability includes an increase in book value to reflect interest on the lease obligation and a decrease in value that reflects the lease payments.

Bank opted for the practical expedient in terms of IFRS 16 “Leases” (i.e. Lease Liability and Right-of-Use Asset recognition) in the following cases:

- Short-term leases and
- Leases of low-value items.

In these cases, lease payments are recognized as an expense over the lease term.

The Bank decided to opt for the low-value items expedient and identified, based on the IASB opinion presented in the Basis of conclusion, that the order of magnitude would be USD 5,000 (value of underlying asset).

Bank has opted for the expedient for the intangible asset as well.

VAT is excluded from the calculation of the Right-of-Use Asset and the Lease Liability.

Lease liability is measured at the present value of future lease payments (not paid at that date), discounted at the interest rate implicit in the lease if it can be readily determined. Otherwise, the Bank uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow:

- the funds to obtain asset of a similar value to the right-of-use asset;
- over a similar term;
- with a similar security;
- in similar economic environment.

The Bank discloses the information about lease contracts in which it acts as a lessee, separately in the financial statements which comprise the following:

a) Depreciation charge for the right-of-use asset
b) The interest expense on the lease liability
c) Expenses related to the short-term leases (these expenses do not have to include expenses related to contracts with lease period shorter or equal to one month)
d) Expenses related to the leases of low-value items.

s) Employee benefits

Defined Pension Contributions

The Bank pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money. Actuarial gains or losses are recognized in other comprehensive income, whereas interest expense and current period employee expenses are recognized in profit or loss statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Share Capital and Reserves

Share Capital and Reserves

Share capital is denominated in Croatian Kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Retained Earnings

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

Earnings per Share

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/ loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

u) Contingencies and Commitments

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

v) Funds Managed for and on Behalf of Third Parties

The Bank manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's assets and are excluded from the report of financial position. For the services rendered, the Bank charges a fee which is recognized in the P&L report on an accrued basis.

3. ACQUISITION OF NOVA HRVATSKA BANKA d.d. (SBERBANK d.d. in resolution)

The Bank acquired 100% of ''Sberbank d.d. in resolution'' shares (now Nova hrvatska banka d.d. ("NHB")). Sberbank d.d., Croatia fell into liquidity problems as a consequence of war in Ukraine along with the increased fear among depositors which started withdrawing deposits.
On 27 February 2022, the Single Resolution Board determined that Sberbank Europe AG in Austria and its subsidiaries in Slovenia and Croatia were failing, confirming the previous ECB's assessment.
On 01 March 2022, the Single Resolution Board adopted resolution decisions for Slovenian and Croatian Sberbank subsidiaries. It has been decided that the resolution is to be carried out by sale. Until 14 April 2022, Sberbank d.d. was in resolution process, meaning the coordination of its operations were assumed by the Resolution Management Board.

At its session held on 13 April 2022, the Council of the Croatian National Bank ("CNB"), issued a decision ending the resolution process in ''Sberbank d.d. in resolution''. Under the instruction of the Single Resolution Board, the CNB transfers 615,623 shares representing 100% of the share capital of Sberbank d.d. to Hrvatska poštanska banka d.d. for the cash consideration of EUR 9.6 million/HRK 71 million. Furthermore, CNB Council decided to grant prior approval to the appointments of Management Board of Sberbank – in resolution, effective from 14 April 2022.

In this way, HPB took control over the new member of HPB Group from 14 April 2022 and it started to operate as Nova hrvatska banka d.d.

Acquisition of Nova hrvatska banka d.d. has no impact on financial result in Bank's separate financial information.

4. EVENTS AFTER THE REPORTING DATE

Acquisition of company Pronam Nekretnine d.o.o.

On July 4, 2022 the Bank acquired 100% ownership share in company Pronam Nekretnine d.o.o. Merging process of Pronam Nekretnine d.o.o. with parent company is initiated, and is expected to close in 2022. Acquisition of ownership share in Pronam Nekretnine d.o.o. and receivable rights that Sberbank Europe AG (SBAG) has towards Pronam Nekretnine and NHB marks the end of loan and deposit relationship of NHB and thus HPB Group with SBAG.