Annual report for 2021

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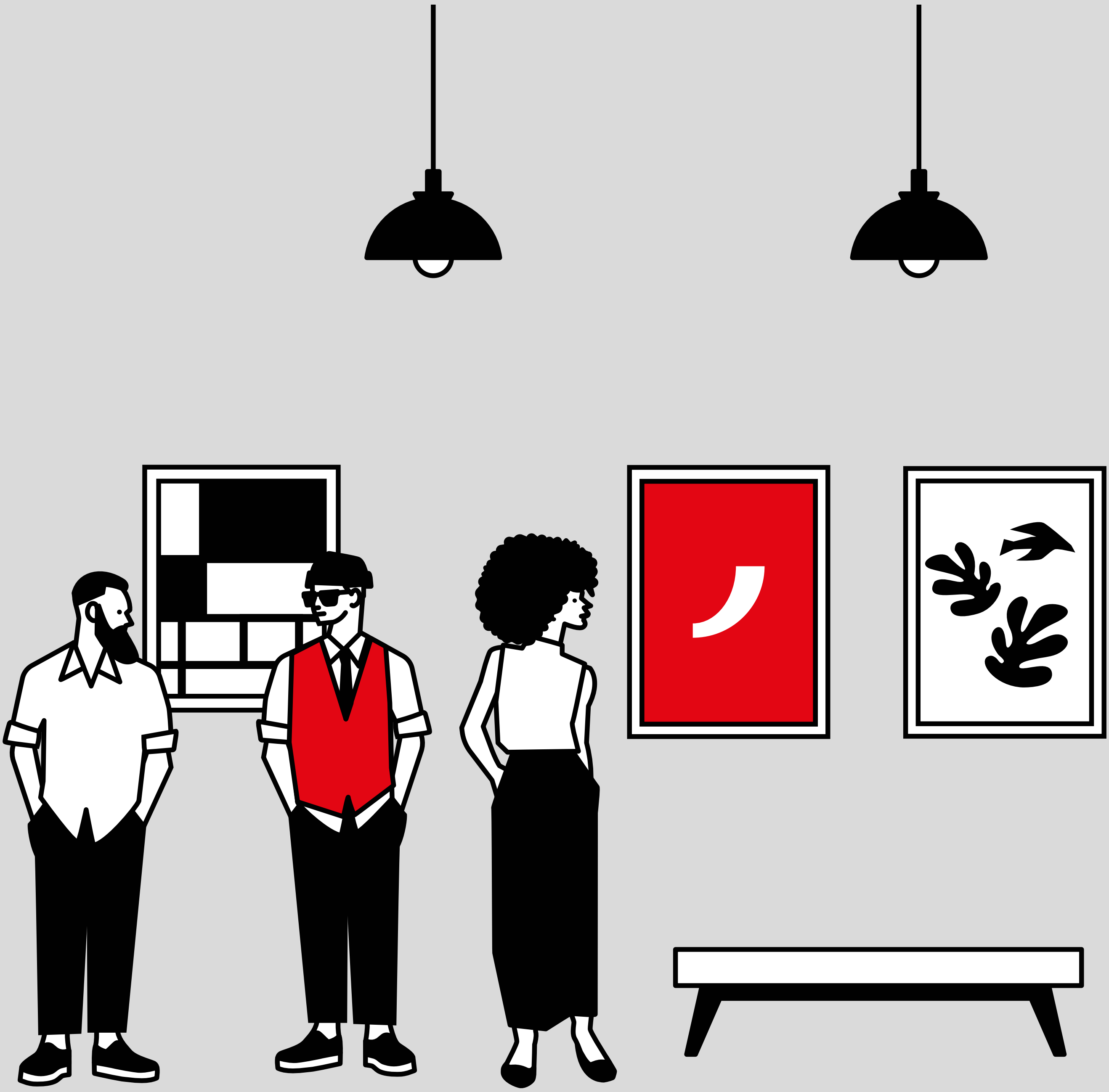
HRVATSKA POŠTANSKA BANKA

Annual report for 2021

Zagreb, March 2022

30 HPB 1991 - 2021



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Introduction

The Annual report includes a summary of financial information, description of operations and audited financial reports together with the independent auditor's opinion for the year ended December 31, 2021, in English language. Original and official Annual report is published in Croatian.

Legal status

The Annual report includes the annual financial reports prepared in accordance with statutory accounting requirements for banks in Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report has been prepared in accordance with the Accounting Act and the Companies Act that require reporting to shareholders at the annual shareholders' meeting of the Management Board. According to the Accounting Law the statutory financial reports are report of financial position, PNL report with a report of comprehensive income, report of changes in equity, cash flow report and notes to the financial reports, and the Companies Act, in accordance Article 250.a and 250.b, prescribes the obligation to submit an annual report on the state of the Bank, and other members of HPB Group.

Abbreviations

In the Annual report Hrvatska Poštanska Banka p.l.c. is referred to as «the Bank» or «HPB», Hrvatska Poštanska Banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or «HNB», Republic of Croatia is referred to as «RH» or «HR» and the Croatian Bank for Reconstruction and Development is referred to as «the CBRD» or «HBOR»

Exchange rates

For the purpose of translation of foreign currencies into Croatian Kuna, the following exchange rates of the CNB were used:

December 31, 2021.......... **1 EUR = 7.517174 HRK** .... **1 USD = 6.643548 HRK**

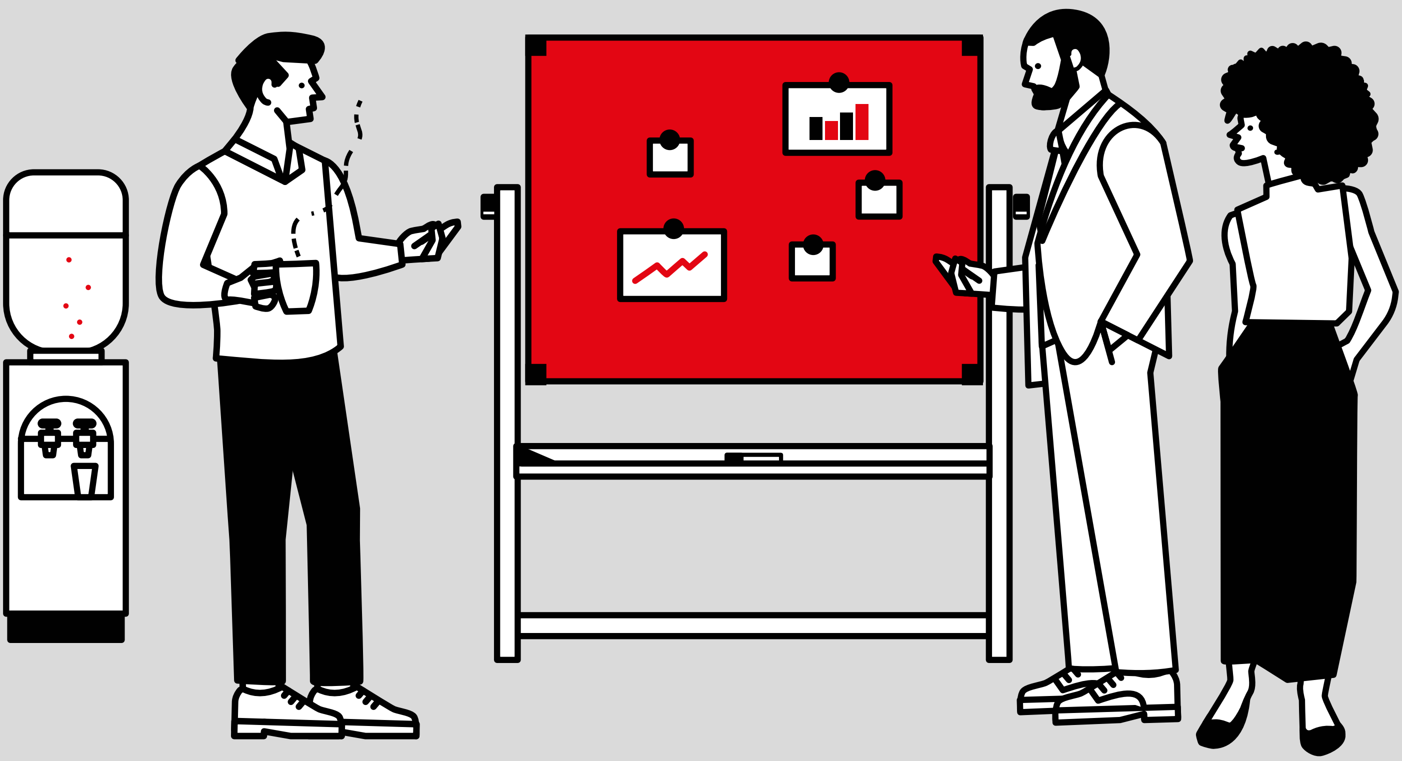
December 31, 2020 .... **1 EUR = 7.536898 HRK**............... **1 USD = 6.139039 HRK**

Mission

We create conditions for a better life in Croatia.

Vision

A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.



Key Financial Indicators

HRK million

Group	**2021**	**2020**	**2019**	**2018**	**2017**
Basic Indicators					
Profit for the Year	203	183	147	156	8
Operating Profit	313	291	344	308	373
Total Assets	27,833	25,464	23,773	23,082	20,048
Loans to Customers	14,252	14,723	13,334	11,529	11,141
Received Deposits	23,441	21,207	20,063	20,143	17,208
Share Capital and Reserves	2,657	2,479	2,377	2,016	1,911
Other Indicators					
Return on Equity	16.68%	15.10%	12.09%	12.84%	0.65%
Return on Assets	0.73%	0.72%	0.62%	0.68%	0.04%
Operating Expenses[1] to Operating Income Ratio	62.36%	64.10%	61.36%	61.98%	55.19%

HRK million

Bank	**2021**	**2020**	**2019**	**2018**	**2017**
Basic Indicators					
Profit for the Year	202	182	144	152	8
Operating Profit	312	289	323	303	372
Total Assets	27,833	25,464	23,773	21,233	19,777
Loans to Customers	14,252	14,723	13,339	11,062	10,979
Received Deposits	23,450	21,215	20,071	18,371	16,952
Share Capital and Reserves	2,650	2,473	2,370	2,003	1,905
Other Indicators					
Return on Equity	16.64%	14.99%	11.84%	12.50%	0.69%
Return on Assets	0.73%	0.72%	0.60%	0.72%	0.04%
Operating Expenses[1] to Operating Income Ratio	62.03%	63.78%	61.27%	60.14%	54.37%
Regulatory Capital	2,631	2,312	2,209	1,777	1,654
Capital Adequacy	25.65%	21.82%	20.17%	17.86%	18.10%

[1]General and Administrative Expenses, Depreciation and Amortization and Other Cost

Statement from the President of the Management Board of the Hrvatska poštanska banka p.l.c.

Esteemed shareholders, clients and partners, dear colleagues,

I am pleased to be able to present you, as the President of Management Board of Hrvatska poštanska banka, the business results and other successes we have achieved in 2021.

Managing a complex system such as a credit institution includes not only the attention of a good businessman, ie compliance with regulations and good practice, but also agility, speed of decision-making and the culture of achieving goals.

Accordingly, in the year in which HPB marked its thirtieth anniversary, the best net financial result since its establishment was achieved, its capitalization was strengthened to levels that position it among the top of the banks in Croatia, thus demonstrating that we can successfully respond to all operational and the strategic challenges we face. I cannot stress enough the importance of the results achieved by the team I lead, because it was achieved in the second year of the global pandemic, which hampered the business of all economic entities, but also influenced consumer behavior, to which we responded affirmatively and ambitiously. “New normal” and new ways of working are now a permanent part of HPB’s corporate culture, ie a new business reality that benefits both clients and employees, which is reflected, among other things, in the Bank’s results.

Comment on financial results of Hrvatska poštanska banka p.l.c.

Based on prudent risk management, determining market position, growth of almost all income categories and rational cost management, the Bank continued with positive trends in 2021, and for the second year in a row achieved a record net profit in its corporate history of HRK 202 million, increase by 11 percent or HRK 20 million year-on-year.

Total net operating income amounted HRK 821 million, which represent an increase of 2.8 percent compared to the previous year. In the income structue, the increase in net commissions and fees by 9.4 percent to the level of HRK 193 million stands out. In contrast, net interest income was reduced by 2.5 percent under the pressure of a long-term decline in interest rates, with the adjustment of pricing policy and the consequent reduction in interest rates paid by the Bank on sources of funds (33.3 percent) mitigated placements (by 5.0 percent). Other non-interest income consist one tenth of total income and relates primarily to the Bank’s gains on the increase in securities prices in the trading book due to the accommodative monetary environment in the country and the world.

Despite inflationary pressures, rising energy prices, as well as initiated development and regulatory projects and related costs of services and labor, the Bank curbed the growth of operating costs in 2021, operating costs decreased by 0.2 percent to HRK 509 million, which is the lowest cost level from 2018.

The previously described dynamics of net income and operating expenses resulted in an operating profit of HRK 312 million, and the C/I business efficiency indicator, which amounts to 62.0 percent (63.8 percent in 2020), was significantly improved.

New working methods and risk management measures initiated in the fourth quarter of 2019 are also indicated in 2021, which is primarily reflected in HRK 56 million lower value adjustments of placements and other assets, with NPL coverage of 61.1 percent (72.1 percent excluding 100% gov. guaranteed exposure).

Comment on financial position of Hrvatska poštanska banka p.l.c.

At the end of 2021, the Bank’s assets amounted to HRK 27.8 billion, with a year-on-year increase of HRK 2.4 billion or 9.3 percent, while reducing the risk exposure measured by RWA by 3.2 percent, thus providing additional internal contribution to the Bank’s capital strenghtening.

Total loans to customers fell by HRK 471 million, which almost entirely refers to the segment of the central government where there was a net return of HRK 685 million, as well as a simultaneous slight net return in some large companies with decrease of HRK 148 million and SMEs for HRK 96 million. On the other hand, the retail loan portfolio increased by HRK 418 million, primarily due to the growth of housing loans by 15.5 percent due to the Bank’s significant participation in the APN program of subsidised housing loans, where HPB significantly exceeds its market share and in the previous, sixth round approved a new HRK 270 million.

In 2021, HPB significantly strengthened its liquidity position and has HRK 6.2 billion in cash and receivables from the CNB and other banks, as well as HRK 5.2 billion in marketable securities. Thus, the LCR indicator (liquidity coverage ratio) remained at a stable level of 183 percent, while the NSFR (net stable funding ratio) was at a level of 174.4 percent.

Traditionally good perception and trust that HPB has among its depositors is reflected in the continued growth of deposits, which increased by HRK 2.3 billion despite the environment of extremely low interest rates.

The Bank's capital at the end of 2021 amounted to HRK 2.7 billion, or over HRK 1,300 per share, where the increase in capital in 2021 primarily relates to net profit, which mitigated the effects of reduced reserves for the fair value of the portfolio valued through other comprehensive income. The increase in capital on the one hand and the reduction in risk exposure on the other, resulted in a robust capital adequacy ratio of 25.7 percent, which ranks HPB among the top credit institutions in the domestic market.

Comment on business operations of HPB Group and Hrvatska poštanska banka subsidiaries

Apart from the parent company, Hrvatska poštanska banka, the financial results of the HPB Group for 2021 were contributed by HPB Invest d.o.o., a UCITS fund management company and HPB-nekretnine d.o.o., a company specializing in real estate.

As HPB, as the parent company of the Group, accounted for the largest part of its balance sheet, the Group's net profit is almost identical to the parent company's profit, amounting to HRK 203 million. However, both subsidiaries contribute to the Group's positive financial results. Accordingly, HPB Invest generated a net profit of HRK 832 thousand, and HPB-nekretnine a net profit of HRK 586 thousand.

HPB's business operations in 2022

The global pandemic of the COVID-19 disease required us to make extremely fast decisions, change the paradigm in management and business and maximum commitment to maintaining the quality of service and business continuity in the conditions of the „new normal".

This 2022 year began with no less demanding aggravation of the geopolitical situation in Ukraine. The economic consequences of the current situation in Ukraine are spilling over into the domestic market, and the Bank was ready to react and acquire Sberbank d.d. Croatia, which is threatened with a certain collapse due to sanctions imposed on Russian entities, and it will continue to operate within the HPB Group as Nova hrvatska banka.

In the coming period, we will be committed to the development of the HPB Group and a proactive market approach to continue to simplify operations based on digitalization and modern IT architecture, all in order to optimize the return on investment of the Bank and shareholders and meet customer needs with focus on those generations that are now entering to labor market.

Accordingly, we are entering 2022 with a redefined strategic business framework, in which sustainable business together with sustainability goals in all three ESG elements is one of the most important pillars of development. In parallel, we will continue to strive for best practice in managing all categories of risks, both financial and sustainability risks, to increase the value and capitalization of the Bank, maintain the trust of depositors and other creditors who have entrusted their funds to us and increase the quality of services and benefits from HPB Group customers.

I am proud that the team I lead consists of ambitious and motivated experts in all parts of the banking business, and I sincerely thank them for the exceptional commitment they give every day to the Bank and our clients. I am fully convinced that we can successfully respond to all the challenges ahead.

Marko Badurina
CEO of HPB p.l.c.

Management Board of Hrvatska poštanska banka p.l.c.

Management Board	**mr.sc. Marko Badurina** *President of the Management Board*	**Anto Mihaljević** *Member of the Management Board*	**Ivan Soldo** *Member of the Management Board*
Area of responsibility	Large Companies and Public Sector Financial Markets Compliance Division Internal Audit Management Board Office HR Legal affairs Strategic development Sustainability Office*	Retail Direct Channels Banking SME Organization and Project Management Marketing Quality Service Management Business Support IT Corporate Security Procurement and General Affairs Service Development and Sales Personnel Office Products and Delivery Processes Management Division	Cred Risk Management Strategic Risk and Risk Control Collection Management Financial Management ALM
Experience	2019 – HPB d.d. President of the Management Board 2017 – Sberbank d.d. Advisor to the Business Strategy Board for Financial Markets, Investment Banking, Financial Institutions 2013 – Sberbank d.d. Deputy Director of the Financial Markets Division 2012 – Volksbank d.d. Deputy Director of the Financial Markets Division 2007 – Volksbank d.d. Liquidity and Trading Management	2019 – HPB d.d. Member of the Management Board 2019 – Kentbank d.d. Director for Retail 2017 – Allianz Zagreb d.d. Director of Sales Support 2015 – Zagrebačka banka d.d. Sales Management Director for Individual Banking Clients 2010 – Zagrebačka banka d.d. The Director of the Region Zagreb 2005 – Zagrebačka banka d.d. The Director of the Region Sjeverozapadna Hrvatska 2003 – Zagrebačka banka d.d. Leasing Sales Manager 2001 – Zagrebačka banka d.d. Head of Sales Controlling 1999 – Fer count d.o.o. Trainee Auditor	2019 – HPB d.d. Member of the Management Board 2018 – Raiffeisen Bank International AG, Executive Director, Risk Management of Financial Institutions and States 2015 – Raiffeisen Bank International AG, Director, Risk Management of Financial Institutions and States 2013 – Raiffeisen Bank International AG, Risk Manager, Senior Risk Manager 2011 – Raiffeisen Bank International AG, Analyst, Senior Analyst banks and Financial Institutions 2010 – Ipreo Ltd Analyst Global Markets 2005 – FIMA Fas d.o.o. Assistant Director 2005 – KPMG Croatia d.o.o. Junior Associate

Note: organizational jurisdiction as of December 31, 2021
*Sustainability office started operating from January 1, 2022

Macroeconomic environment

Gross domestic product

Decomposition of GDP growth by components

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP – real growth rate	**(2.3%)**	**(0.4%)**	**(0.3%)**	**2.5%**	**3.5%**	**3.4%**	**2.9%**	**3.5%**	**(8.1%)**	**10.4%**
GDP – nominal growth rate	**(0.9%)**	**0.4%**	**(0.2%)**	**2.6%**	**3.5%**	**4.6%**	**5.0%**	**5.5%**	**(8.2%)**	**14.0%**
GDP deflator	**1.4%**	**0.8%**	**0.1%**	**0.1%**	**(0.1%)**	**1.2%**	**2.1%**	**2.0%**	**(0.1%)**	**3.6%**
Contribution to GDP growth										
household expenditure	(1.5%)	(1.0%)	(1.5%)	0.2%	1.8%	1.8%	1.9%	2.4%	(3.1%)	6.0%
government expenditure	(0.2%)	0.2%	0.3%	(0.2%)	0.2%	0.4%	0.5%	0.7%	0.8%	0.7%
gross investment into fixed capital	(0.9%)	0.2%	(0.4%)	1.5%	1.0%	0.3%	0.7%	1.9%	(1.3%)	1.6%
net exports	0.4%	(0.3%)	1.5%	0.4%	0.3%	(0.7%)	(1.9%)	0.0%	(5.1%)	6.8%
stock exchange and other	(0.2%)	0.6%	(0.2%)	0.6%	0.3%	1.6%	1.6%	(1.5%)	0.5%	(4.7%)
Inter-annual growth of real GDP components										
household expenditure	(2.4%)	(1.6%)	(2.5%)	0.4%	3.1%	3.1%	3.3%	4.1%	(3.1%)	6.0%
government expenditure	(0.9%)	0.7%	1.3%	(0.9%)	1.0%	2.2%	2.4%	3.3%	4.1%	3.0%
gross investment into fixed capital	(4.6%)	1.0%	(2.3%)	8.4%	5.0%	1.5%	3.8%	9.8%	(6.1%)	7.6%
export of goods and services	(1.5%)	2.5%	7.4%	10.3%	7.0%	6.9%	3.7%	6.8%	(22.7%)	33.3%
import of goods and services	(2.4%)	3.2%	3.5%	9.4%	6.5%	8.4%	7.5%	6.5%	(12.3%)	14.7%

Source: CBS, *www.dzs.hr* (MSI Bruto domaći proizvod, form 12.1.1.4.; temporary data for 2020 and 2021), analysis by HPB

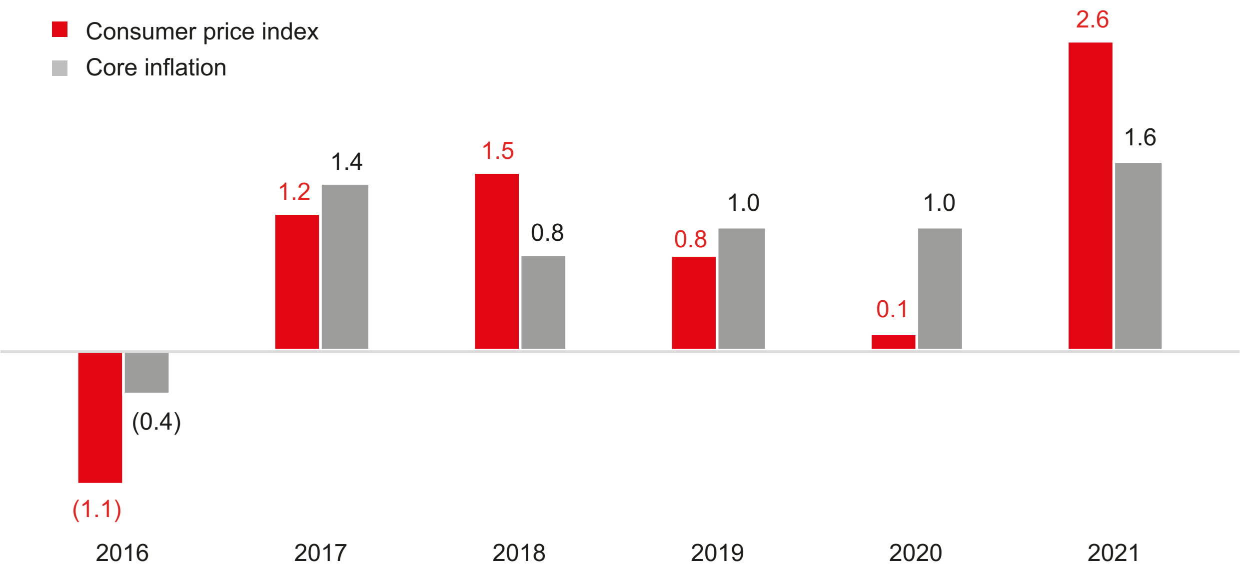
After an extremely strong decline in the total value of domestic product in 2020, in 2021 a record GDP growth of 10.45% compared to the previous year was achieved. Although this increase is partly influenced by the base period, measured by constant prices, the value of domestic gross domestic product in 2019 was exceeded.

Net exports made the largest contribution to real GDP growth with 6.84% or HRK 51.4 billion measured at constant prices, also exceeding the value of exports in 2019. The next component that reacted most strongly after the mitigation of epidemiological measures is household consumption that in 2021 increased by 9.96% compared to the previous year. Gross fixed capital formation has returned to the pre-crisis positive trend and is expected to make a significant contribution to real GDP growth due to investments by the construction sector, which is additionally engaged in reconstruction and continuously growing demand for residential real estate. The continuation of positive economic momentum in the future will be predominantly influenced by geopolitical risks, the end of the pandemic and the accelerated rise in prices.

Assuming that these risks do not materialize to a significant extent, strong domestic and foreign consumption, ie good tourism results, would continue to be the main drivers of economic development. In the medium term, a significant contribution of exports of goods and services is expected due to the positive effects of the introduction of the EUR and stronger integration of domestic production capacities within the European common market.

Prices

Consumer price index (y-o-y changes in %)



Source: CNB, *www.hnb.hr* (forms h-j1 i h-j2), analysis by HPB

The y-o-y rate of change in prices of selected components of the index of consumer prices

	2016	2017	2018	201.	2020	2021
Consumer price index – total	**(1.1%)**	**1.1%**	**1.5%**	**0.8%**	**0.1%**	**2.6%**
Food and non-alcoholic beverages	(0.5%)	+2.9%	+1.0%	(0.1%)	+1.9%	+1.6%
Alcoholic beverages and tobacco	+0.4%	+2.4%	+2.8%	+4.4%	+3.6%	+5.9%
Clothing and footwear	+0.2%	+0.8%	(1.3%)	(0.9%)	(0.6%)	(0.1%)
Housing, water, electricity, gas and other fuels	(2.5%)	(2.7%)	+2.7%	+3.1%	(1.0%)	+1.6%
Furnishings, household equipment and routine household maintenance	+0.2%	+0.1%	+0.4%	+0.8%	+0.3%	+1.0%
Health	+1.8%	+1.1%	+1.4%	(0.9%)	+1.2%	+0.8%
Transport	(4.1%)	+3.3%	+3.5%	(0.3%)	(4.3%)	+8.3%
Communication	(2.4%)	(1.6%)	(0.2%)	(0.2%)	+1.5%	+1.1%
Recreation and culture	(0.6%)	+0.8%	+0.9%	+0.7%	+0.1%	+1.7%
Education	+0.0%	+0.8%	+0.4%	+0.8%	(0.4%)	+0.5%
Restaurants and hotels	+1.3%	+5.1%	+3.0%	+3.0%	+1.5%	+2.9%
Miscellaneous goods and services	+0.4%	+0.3%	+0.7%	+0.3%	+2.0%	+0.9%
Goods	(1.4%)	+1.4%	+1.6%	+0.6%	(0.4%)	+2.9%
Services	(0.1%)	+0.4%	+1.2%	+1.3%	+1.7%	+1.7%

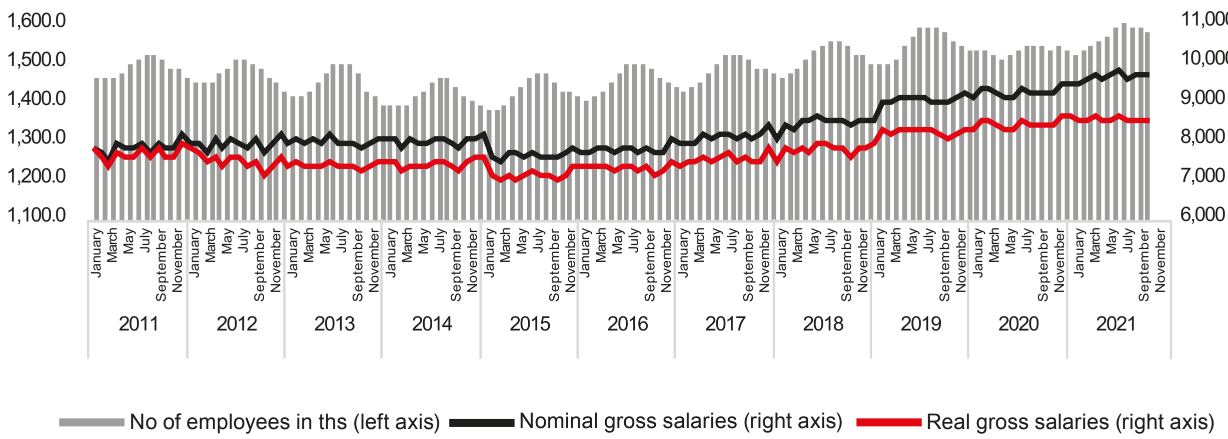
Source:CBS, *www.dzs.hr*, form 13.1.1., analysis by HPB

The core price index, which stood at 1.6% in 2021, is at its highest level since 2013 and confirms the breadth of pressures on price growth due to disruptions in supply chains, which are likely to continue in 2022, after which they are expected to curb. through balancing demand, normalizing commodity flows and inflationary expectations. Accordingly, the consumer price index of 2.6% is at its highest level since 2012, but at the same time far lower than recorded in the 1990s and 2000s, when it was many times higher.

Individual growth within the consumer basket was recorded in the transport item with 8.3%, however, due to the total share in the consumer basket of food and non-alcoholic beverages with 1.6% and housing and energy costs with the same percentage significantly affect total living costs. Rising prices of highly bulky goods such as alcoholic beverages and tobacco have further increased the value of the consumer basket. The only item that recorded a minimal decrease was clothing and footwear with 0.1%.

Employment and salaries

Comparative movement of number and gross income of employees



Source: CNB, *www.hnb.hr* (Bulletin, seasonally adjusted time series), analysis by HPB

After the outbreak of the economic crisis at the end of 2008, employment in Croatia declined until 2014. During this period, the number of employees decreased from a maximum of 1.64 million (July 2008) to 1.39 million (February 2014). However, at the beginning of the economic recovery, the number of employees increased continuously, reaching a slightly lower level of employment at the peak of recovery (July 2019 = 1.60 million) than in the pre-crisis 2000s, due to the changed structure of the economy and labor force. underemployed population in EU countries and other developed countries with labor needs.

Positive trends have been interrupted by the outbreak of the COVID-19 pandemic in 2020. However, the effects of the pandemic on the reduction of the number of employees were limited, primarily due to the timely reaction of the Government, which started the job preservation program in the first quarter of 2020. In absolute terms, the average number of employees in 2020 (= 1.54 million) was lower by only 18 thousand than the pre-crisis average in 2019, and over 100 thousand workers higher than in 2014 as the last year of the previous recession = 1 , 42 million). The breadth of coverage of these measures, supported by the repeated implementation of income tax relief, combined with a very low inflation rate in 2020, has affected the growth of both nominal and real levels of gross wages.

In 2021, due to the prolonged impact of the omicron variant of the COVID-19 virus, which prolonged the total duration of the pandemic, the Croatian government was forced to continue with the job preservation program, which with strong economic activity affected the growth of total staff. According to incomplete data for 2021, nominal gross wages continued to grow, as did the total number of employed persons.

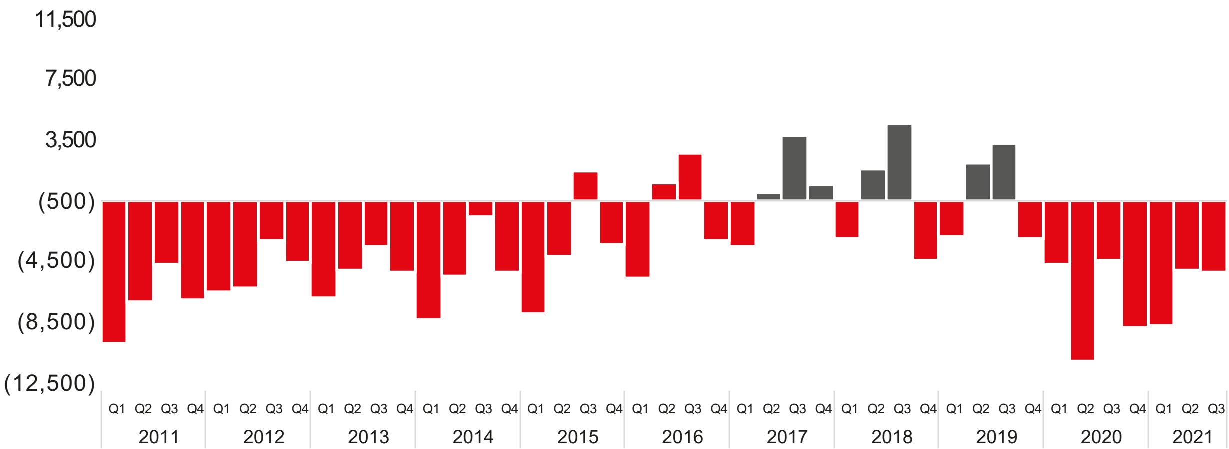
Public finance

As in 2020, and under the pressure of very high costs of neutralizing the negative effects of the COVID-19 pandemic, in 2021 the trend of negative difference in total revenues over total consolidated general government expenditures continued. In the first nine months of 2021, consolidated general government revenues amounted to HRK 143.9 billion, which is 12.37%, or HRK 15.8 billion more than in the same period last year. The growth of income is in line with the growth of economic activity in 2021, ie the increase in household consumption and the relatively successful tourist season.

The mentioned cost of mitigating the consequences of the pandemic resulted in an increase in total expenditures in 2020 by 8.3% compared to the previous year, and in the first three quarters of 2021 total expenditures were 10% higher than in the same period in 2020. As in the first three quarters of 2021, the costs of social benefits of HRK 50.7 billion and subsidies in the amount of HRK 9.4 billion accounted for 37% of total expenditures. The next significant item was recorded in the employee benefit account of HRK 40 billion, or 8% more than in the same period last year.

The net increase in indebtedness for the first nine months of 2021 amounted to HRK 17.5 billion, which continues the trend of the budget deficit that was interrupted in the period 2017-2020.

Difference between total revenues and total expenses of the consolidated government (in HRK million)



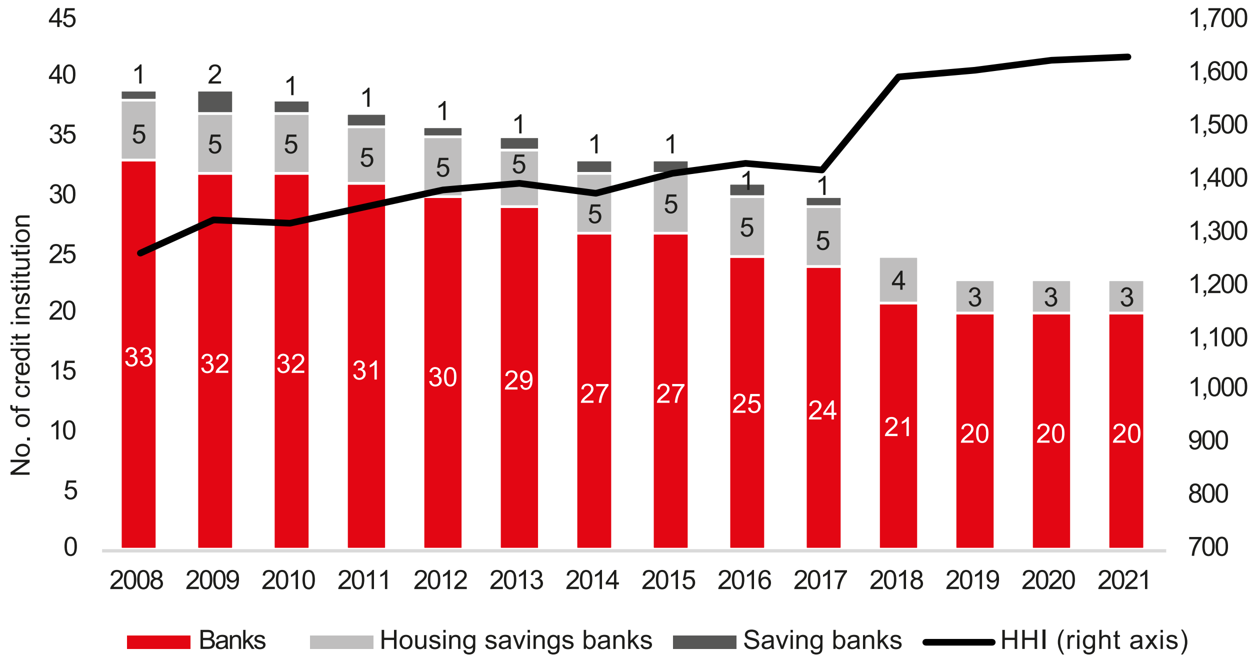
Source: CNB, *www.hnb.hr* (general government nonfinancial accounts, form h-i_1), analysis by HPB

Business environment

Number of credit institutions in the Croatian market due to market consolidation and discontinued operations of smaller banks continuously decreasin. The onset of the COVID-19 crisis in 2020 slowed down the process of consolidation of the sector in terms of the number of institutions, which did not change in 2021. Accordingly, as of 31.12.2021 20 commercial banks and 3 housing savings banks operated on the market.

In 2021, the concentration of the sector, measured by the market share of the top 5 banks, increased from the already high 74% in 2017 to over 80% at the end of 2019, which further increased to 82.6% in 2021. Herfindahl-Hirschman's index of concentration of credit institutions' assets, after several years of continuous slight growth, and due to realized business combinations in 2018 and 2019, exceeded the level of 1,600 points, which indicates a moderately concentrated market. The HHI index also rose slightly by an additional 6 points in 2021, due to stronger organic growth in volume and consequent growth in market share in large banks.

Number od credit institutions and Herfindahl-Hirchman indeks (HHI) of Concentration of Assets of Credit Institutions



Source: CNB, *www.hnb.hr* (audited indicators of credit institutions from 2008. to 2019, Selected indicators of the structure, concentration and performance of credit institutions as of 31.12.2021), analysis by HPB

A characteristic of the markets in the CEE region is that foreign-owned banks have a dominant share, with Croatia being no exception. Thus, foreign owned credit institutions represent 91% of total assets of the credit institutions sector, dominated by Italian, Austrian and Hungarian banks from the European Union.

HPB is one of the two remaining state-owned banks and as of December 31, 2021. ranked sixth among credit institutions in the Republic of Croatia by assets, following the successful merger of Jadranska banka d.d. Šibenik and HPB-Stambena štedionica d.d., with a market share of 5.56 percent. Remaining State Bank - CROATIA BANK d.d. accounts for 0.37% of system assets, whereby domestic state-owned banks account for 5.93% of the share, while domestic privately owned banks account for 3.45% of the share in the assets of credit institutions. After 31.12.2021. year, HPB acquired a 100% ownership share in Sberbank d.d. Zagreb over which the resolution procedure has been opened. Completion of the resolution process is expected in 2022, when Sberbank d.d. continue to operate as Nova hrvatska banka d.d.

The total assets of the sector increased by a significant HRK 43.4 billion or 9.4% in 2021. Such strong growth compared to the pandemic year 2020 is the result of the continuation of the expansive monetary environment and measures of the Croatian National Bank, while maintaining the stability and extremely high capitalization of the banking sector. Accordingly, most credit institutions operating in Croatia recorded an increase in assets, with liquidity instruments growing the most (mostly deposits with the CNB) and loans and advances while maintaining asset quality constant (share of non-performing loans - NPLs). at the end of 2021 it was 4.33%, and at the end of 2020 it was 5.42%. According to unaudited data, credit institutions operated with a net profit of HRK 5.6 billion in 2021, which is twice as much as the revenues generated in 2020. The recovery of overall economic activity had a positive impact on all banks and housing savings banks operating in the Croatian market, as they all achieved a positive difference in income and expenditure. Achieved revenue recovery, which was lost during the lockdown period, returned efficiency indicators to the level that was common in the pre-pandemic periods. Reduced operating costs have improved the cost-effectiveness indicator, which is returning to an average value below 50% with a tendency to further decrease. In 2021, the CNB's supervisory expectations and guidelines regarding the ban on profit payments were still in force, which had the effect of further capital strengthening of the financial sector. As a result of such measures, regulatory capital adequacy reached 25.58% at the end of 2021. The liquidity coverage ratio indicates very strong liquidity and stability of the banking system in Croatia.

Key performance indicators of credit institutions (in %)

	2016	2017	2018	2019	2020	2021
Return on assets (ROA)	1.23	0.85	1.21	1.37	0.61	1.17
Return on equity (ROE)	9.24	5.91	8.4	9.82	4.43	8.74
Cost-to-income ratio (CIR)	51.4	48.98	48.05	46.32	54.97	48.76
Non-performing loans ratio (NPL)	12.07	8.73	7.49	5.47	5.43	4.33
Non-performing loans coverage	63.62	61.64	60.41	68.01	64.05	63.17
Total capital ratio	22.97	23.8	23.14	24.8	24.91	25.58
Liquidity coverage ratio (LCR)	193.98	190.83	164.38	173.71	181.94	202.48

Source: CNB, *www.hnb.hr* (Data on credit institution operations as at 31 December 2021, preliminary unaudited), analysis by HPB

Credit institutions – overview of selected indicators of 2021 and ranking of a top-10 banks by category

Market share by assets

Rank	Name of the institution	Share in total assets (%)
1	Zagrebačka banka d.d.	26.45
2	Privredna banka Zagreb d.d.	20.90
3	Erste&Steiermärkische Bank d.d.	16.52
4	OTP banka d.d.	9.89
5	Raiffeisenbank Austria d.d.	8.30
6	**Hrvatska poštanska banka d.d.**	**5.56**
7	Addiko Bank d.d.	3.38
8	Sberbank d.d.	2.21
9	Istarska kreditna banka Umag d.d.	0.89
10	Agram banka d.d.	0.86

Capital

Rank	Name of the institution	Capital adequacy (%)
1	PBZ stambena štedionica d.d.	53.89
2	Zagrebačka banka d.d.	35.60
3	Addiko Bank d.d.	33.91
4	Privredna banka Zagreb d.d.	28.63
5	**Hrvatska poštanska banka d.d.**	**25.65**
6	Samoborska banka d.d.	22.82
7	J&T banka d.d.	26.17
8	Raiffeisenbank Austria d.d.	22.71
9	Raiffeisen stambena štedionica d.d.	23.56
10	OTP banka d.d.	19.85

Liquidity

Rank	Name of the institution	LCR (%)
1	Raiffeisen stambena štedionica d.d.	1,908.30
2	J&T banka d.d.	1,228.88
3	Samoborska banka d.d.	796.41
4	Istarska kreditna banka Umag d.d.	633.65
5	Wüstenrot stambena štedionica d.d.	581.57
6	PBZ stambena štedionica d.d.	541.01
7	Karlovačka banka d.d.	467.61
8	Imex banka d.d.	402.00
9	Slatinska banka d.d.	273.32
10	Addiko Bank d.d.	261.96
17	**Hrvatska poštanska banka d.d.**	**183.06**

Return on equity

Rank	Name of the institution	ROE (%)
1	Bank Kovanica d.d.	14.29
2	Raiffeisen stambena štedionica d.d.	12.05
3	Karlovačka banka d.d.	11.41
4	Zagrebačka banka d.d.	11.14
5	Partner banka d.d.	10.51
6	Istarska kreditna banka Umag d.d.	9.99
7	OTP banka d.d.	9.57
8	Erste&Steiermärkische Bank d.d.	9.39
9	Agram banka d.d.	9.24
10	Raiffeisenbank Austria d.d.	9.07
14	**Hrvatska poštanska banka d.d.**	**7.89**

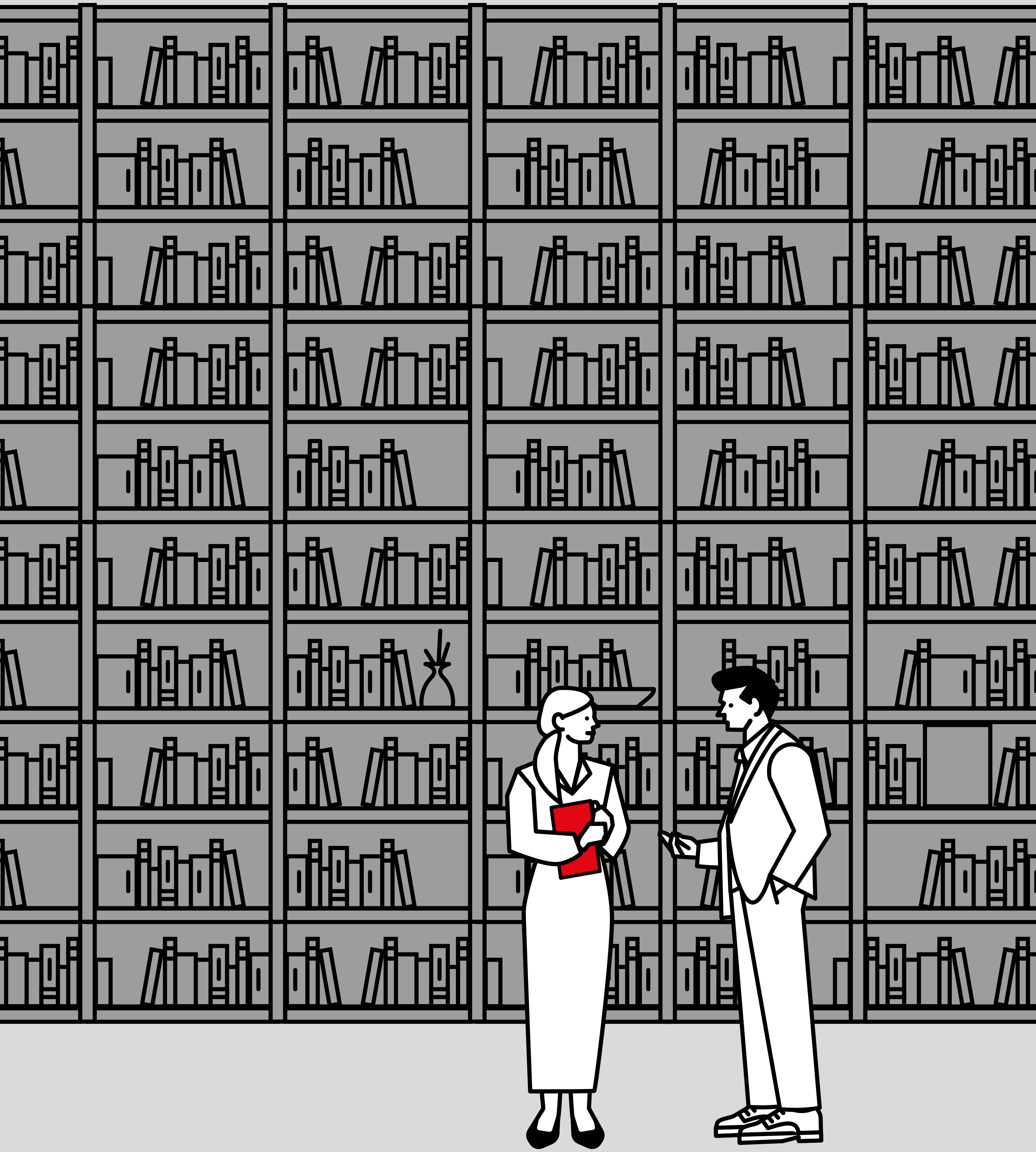
Return on assets

Rank	Name of the institution	ROA (%)
1	Zagrebačka banka d.d.	1.56
2	Bank Kovanica d.d.	1.52
3	OTP banka d.d.	1.33
4	Partner banka d.d.	1.28
5	Raiffeisenbank Austria d.d.	1.14
6	Privredna banka Zagreb d.d.	1.11
7	Raiffeisen stambena štedionica d.d.	1.09
8	Erste&Steiermärkische Bank d.d.	1.09
9	Agram banka d.d.	1.02
10	Istarska kreditna banka Umag d.d.	0.90
13	**Hrvatska poštanska banka d.d.**	**0.76**

Profitability

Rank	Name of the institution	Net profit (HRK '000)
1	Zagrebačka banka d.d.	2,008,133
2	Privredna banka Zagreb d.d.	1,114,776
3	Erste&Steiermärkische Bank d.d.	847,307
4	OTP banka d.d.	631,157
5	Raiffeisenbank Austria d.d.	448,901
6	**Hrvatska poštanska banka d.d.**	**202,107**
7	Addiko Bank d.d.	79,929
8	Agram banka d.d.	41,148
9	Istarska kreditna banka Umag d.d.	37,238
10	Sberbank d.d.	33,515

Source: CNB, *www.hnb.hr* (Data on credit institution operations as at 31 December 2021, preliminary unaudited), analysis by HPB



Management Board Statement of Condition of Hrvatska poštanska banka p.l.c.

History and Development of Hrvatska poštanska banka p.l.c.

Hrvatska poštanska banka was established at the beginning of the ‘90s as a result of the work of the group of enthusiasts and experts of the Croatian Post and Telecommunications (“HPT”) who, understanding good business practices of the postal banks in Europe, brought the idea of a postal bank to life after Croatia declared independence.

The Bank was established in October in 1991 with its registered office in Zagreb, and its first business address was in Tkalčićeva street 7. The shares of the Bank were subscribed and taken over by 50 founders/shareholders, business partners of “HPT” which was the largest shareholder, and which ensured the premises and the first personnel for the operation of the Bank. As a universal banking organization, the Bank was registered for “all cash, deposit, credit and guarantee operations with legal persons and all banking operations with natural persons, including also the provision of payment services” at the end of October in 1991 in the court register.Due to retail and corporate needs for banking services, especially in local areas with no banks, the Bank had relied on around 1,100 HPT offices at the time where banking services were introduces including receiving retail deposits, corporate deposits – HPT-business partners. From May in 1992 the Bank started to provide international foreign exchange payment services and to collect the first foreign exchange deposits. During that year, the advantages of the newly established financial institution were also recognized, in addition to the founders and “HPT”’s business partners, by smaller private businesses which started to place their deposits into the Bank. Under the Regulation on Recovery of Debts and Funds Placed With Poštanska štedionica Beograd – Croatian subsidiary, Zagreb (dated 25th March 1992, Official Gazette 15/ 92), the Bank was named as legal successor of the mentioned subsidiary which led to a substantial contribution to its potentials and activities (exchanging passbooks and current accounts, taking savers and depositors, recovering claims).

The first years of the Bank’s operation were marked in the light of the war by decline in total economic and investment activities in Croatia, decline in living standard, high inflation rate (even hyperinflation), monetary indiscipline and higher fiscal expenditures. This situation was ended when the Stabilization Program was passed in May in 1995, ending inflation and stabilizing DEM rate of exchange. During that time the Bank was doing mostly retail business by receiving HRD (dinar) and HRK funds from individuals, paying salaries and pensions, placing surpluses on money markets and making short-term loans to legal entities supporting their working capital, mostly to “HPT”, its business partners and founders of the Bank. Even under such complex working conditions, the Bank managed to record a constant balance sheet growth and profit, and was always taking care of preserving the value of the founders’ capital and clients and investors deposits. In 1995, the building in Jurišićeva 4 was bought and the Bank’s registered office was moved to the new business address. In the same year, the Bank’s acts were aligned with the Companies Act. The first branch was opened in Split in April in 2003.

In July in 2005 the Bank established HPB-nekretnine, a real estate limited liability company and HPB Invest, a limited liability company for investment funds management, forming thus the Hrvatska poštanska banka Group. The development of the Group continued in 2006 with the establishment of HPB Stambena Štedionica, a joint stock company for housing savings, which was successfully merged with the parent company on December 2, 2019. as a result of business rationalization and optimization. In addition to the listed subsidiaries in which the Bank is a parent company and also a one hundred percent owner of all three companies, from July 2018 until April 1, 2019, the Bank become 100% owner of Jadranska banka, Šibenik. In addition to these subsidiaries, the Bank held between 2015 and 2017 the controlling ownership stake (58.2%) in H1 TELECOM, a public limited company.

Through public share offering in September 2015, the Bank’s equity was increased by HRK 550 million by mixed private and public equity investments. The Bank’s shareholding structure includes pension funds, investment funds and other private investors which paid up HRK 305.9 million and acquired the 25.5% ownership stake. The Republic of Croatia paid up HRK 244.1 million and its and the related persons’ ownership stake fell from 99% to 74.5%. This share increased in 2021 to 77.3% through the transfer of shares due to the closure of the Prosperus Economic Cooperation Fund, which was a shareholder of the Bank, to participants in the fund: the Croatian Bank for Reconstruction and Development, which transferred its share to the Republic of Croatia and the Fund for Financing the Decommissioning and Disposal of Radioactive and Spent Nuclear Fuel of the Krško Nuclear Power Plant, which is 100% owned by the Republic of Croatia.

At the end of 2019, HPB entered the scope of a comprehensive assessment by the ECB, together with four other domestic banks. In May 2020, the ECB confirmed the quality of the Bank's assets and the resilience of its balance sheet, and the preconditions for initiating Croatia's accession to the European Monetary Union (EMU) were met

HPB's network today is comprised of 6 regional corporate centers (RC Središnja Hrvatska based in Zagreb, RC Sjeverna Hrvatska based in Varaždin, RC Istra i Kvarner based in Rijeka, RC Slavonija based in Osijek, RC Dalmacija – sjever based in Šibenik and RC Dalmacija – jug based in Split within which 16 entrepreneurial centers operate) and 6 regional retail centers distributed on Središnja Hrvatska, Sjeverna Hrvatska, Slavonija, Istra i Kvarner, Dalmacija sjever i Dalmacija jug regions, 52 centers and 6 outlets spread over the entire territory of the HR.

Market position and competition profile of Hrvatska poštanska banka, the largest domestically owned bank, enable it to ensure all financial services to individuals, comprehensive financial services to the government and support to the Croatian economy, especially in the small and medium sized enterprises segment. In cooperation with the Croatian Post plc ("HP") banking products and services are accessible even in the most remote places in country.

Overview of key events in HPB corporate history d.d

10/1991
Establishment of HPB P.L.C.
as a subsidiary of Croatian Postal And Telecommunication - HPT

12/1995
Purchase and relocation to a new headquarters
in a building in Jurišićeva 4

04/2003
The first HPB branch
opened in Split

Mid 2005
Company rebranding
and adoption of new logo and motto („Moja Banka")

12/2010
The Republic of Croatia becomes the majority owner of HPB
through recapitalization

09/2015
HPB recapitalization
through combined private and public investment (HRK 550 million)

07/2018
Acquisition of Jadranska banka d.d.
Šibenik

2020-2021
A period of record profitability and sustainable growth.
Asset quality and balance sheet stability confirmed in a comprehensive assessment by the ECB. Capitalization strengthened at the highest level in the HPB's recent history

Project of transition to the single currency of the EU

In the context of the accession of the Republic of Croatia to the European Monetary Union, the Croatian kuna was joined to the European Exchange Rate Mechanism II (ERM II) on 10 July 2020, and the National Plan for the Exchange of the Croatian Kuna with the Euro was launched and implemented in the second half of 2020. The introduction of the euro is planned for January 1, 2023, and depending on the decision of the Council of the European Union that Croatia meets all the conditions, which decision is expected in July 2022.

Commercial banks will play a significant role in the process of currency exchange, primarily through cash exchange activities, conversion of deposits and loans, adjustment of ATMs and POS devices, and consumer protection. Among other things, the currency swap process will include the CNB's pre-supply of cash to banks, double pricing five months before and 12 months after the changeover, the changeover of non-cash payments to the euro on the day of conversion and double cash flow during the first 2 weeks after introduction. All these activities will be provided by banks without additional fees for clients.

Given the wide range of various business activities that need to be carried out for timely adjustment, as well as the impact that these activities will have on the Bank's operations and all its organizational parts, the Bank launched an internal project to replace the Croatian kuna with the euro. financial and human resources.

Business Activity of Hrvatska poštanska banka

The Bank offers all banking and financial services with the focus on retail and corporates, among which:

- all types of deposit and credit products and services for corporates and retail in domestic and foreign currency,
- transaction services (HRK and FX payments),
- issuing guarantees, avals and similar products,
- factoring, financial lease services,
- securities services,
- services related to lending, such as collecting data, making analysis and providing information on the creditworthiness of legal and natural persons carrying out their business independently;
- performing business related to the sale of insurance policies in accordance with the regulations governing insurance,
- issuing electronic money,
- issuing and managing other payment instruments if the provision of these services is not considered to be payment service provision in accordance with a separate law,
- other banking products and services (safes, Western Union services).

Regulatory Framework

Conditions for the Bank's founding and business as a credit institution in the Republic of Croatia are regulated by the Credit Institutions Act (Official Gazette 159/ 2013, 19/ 2015, 102/ 2015, 15/2018, 70/2019) and the Companies Act (Official Gazette 152/ 2011, 111/ 2012, 68/ 2013 and 110/ 2015, 40/2019).

Offering of investment services and investment activities in the Republic of Croatia are regulated by the Capital Market Act (Official Gazette 65/2018 and 17/2020), the by-laws of Croatian Financial Services Supervisory Agency and EU regulation markets throughout the European Union and payment services offered by the Bank are regulated by the Payments Act (Official Gazette 66/2018), together with certain by-laws.

The Bank's core business is also regulated by the Croatian National Bank's by-laws as the top regulator which regulates the Bank's core business and operations related to the core business. During 2021 Amendments to the Decision on the Management System (Official Gazette 145/2021 of 29 December 2021) were adopted.

The COVID-19 pandemic continued to have negative effects on the economic and financial system in 2021 and continued to cause uncertainty, due to increased resilience of credit institutions and maintaining the stability of the financial system during the COVID-19 pandemic, Banks became subject to certain supervisory expectations, through published circulars of the Croatian National Bank, recommendations of the European Banking Authority and recommendations and supervisory expectations of the European central bank, all in connection with the COVID-19 pandemic. These recommendations and expectations relate essentially to certain actions regarding the approval of moratoriums, their treatment and classification and reporting on them, impairment and credit risk management systems, as well as recommendations regarding the suspension of dividend payments and variable remuneration to employees.

Thus, the Decision of the Croatian National Bank on the temporary restriction of distributions (OG 4/2021), which entered into force on 16 January 2021, restricts the distributions to credit institutions until 31 December 2021, which includes the payment of dividends, creating a dividend payment obligation, repurchasing treasury shares, allocating variable receipts and other forms of distribution. The decision was made with the obligation of the Croatian National Bank to review the reasons of restrictions no later than September 30, 2021, whereby the regulator may, depending on the assessment, lift the duration of the temporary restriction before December 31, 2021.

Above Decision was taken in accordance of the authority under Article 144a) of the Credit Institutions Act, according to which the Croatian National Bank is the designated body - when necessary to preserve the stability of the financial system as a whole, strengthen the resilience of the financial system and avoid and reduce systemic risk - authorized to issue bylaws prescribing appropriate measures and instruments. Accordingly, this regulatory measure was adopted due to the uncertainties arising from the duration and dynamics of the COVID-19 pandemic and its consequences.

In accordance with Article 4 of the Decision on Temporary Restriction of Allocations, in early September 2021 the Croatian National Bank reviewed the existence of the reasons for the Decision and assessed that the circumstances have changed since the Decision sufficient to justify the early repeal of the Decision from October 1, 2021.

In addition to the aforementioned normative activity, the Croatian National Bank is also responsible for supervising the operations of credit institutions in the Republic of Croatia. Following the establishment of close cooperation between the Croatian National Bank and the European Central Bank (hereinafter: the ECB), and in accordance with Article 1 of Regulation (EU) no. 468/2014 of the European Central Bank of 16 April 2014 establishing a framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (Single Supervisory Mechanism Regulation) - hereinafter the SSM Regulation, the scope of the ECB's supervisory tasks is also defined, which is limited to the prudential supervision of credit institutions, and supervisory tasks not entrusted to the ECB remain the responsibility of the national supervisory authorities. According to the above, the Croatian National Bank remained solely responsible for the supervision of banks in areas not covered by the SSM Regulation. These areas relate to areas regulated by the Credit Institutions Act and bylaws of the Croatian National Bank, such as restrictions on investment in tangible assets, rules for accounting and classification of exposures, methods of determining credit losses and consumer protection, and monitoring the implementation of national regulations that regulates the prevention of money laundering and terrorist financing. On 10 July 2020 the ECB adopted a Decision on establishing close cooperation with the Croatian National Bank, and as of 1 October 2020 the Republic of Croatia participates in a single supervisory mechanism since the establishment of close cooperation between the Bank and the ECB is one of the preconditions for entering ERM II (Single European Exchange Rate Mechanism II).

In December 2020, the Government and the Croatian National Bank prepared a strategic document - the National Plan for the Exchange of the Croatian Kuna with the Euro - which outlines a plan for implementing the main activities needed for an efficient and successful changeover to the euro. this will be made possible by wider economic and financial circumstances. In addition, in January 2022, the Coordination Committee for Economic Adjustment and Consumer Protection issued Guidelines for Economic Adjustment in the Process of Replacing the Croatian Kuna with the Euro in order to provide information to businesses on activities and adjustments awaiting them in the replacement process. In addition, the Plan of Legislative Activities of the Government of the Republic of Croatia for 2022 was published at the end of 2021, which within the Ministry of Finance for the first quarter of 2022 envisages referral to the procedure for adopting the Act on the Introduction of the Euro as the Official Currency in Croatia.

The Croatian Financial Services Supervisory Agency is responsible for supervising the provided investment and connected services and the performance of investment activities. The Croatian Deposit Insurance Agency controls the fulfillment of obligations of credit institutions under the Deposit Insurance Act (Official Gazette 146/2020) which entered into force on 01.01.2021. The Croatian National Bank implements the rules and determines the procedures and instruments for the resolution of credit institutions in accordance with the Resolution of Credit Institutions and Investment Companies Act (Official Gazette 146/2020 and 21/2022). By amending the Law on Credit Institutions, as well as the Law on Resolution of Credit Institutions and Investment Companies, the Croatian National Bank takes over the powers for the resolution of credit institutions, and the Croatian Agency for Supervision of Financial Services over investment companies.

The Personal Data Protection Agency monitors the fulfillment of all rights and obligations in the field of personal data protection on the basis of which the Bank is determined obligations and responsibilities in the process of personal data processing related to the application of regulations covered by the legal framework of personal data protection in Croatia.

The Bank uses the EU regulation which includes regulations adopted by the Parliament and the Council. The most important is Regulation (EU) 575/ 2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/ 2012 (Official Journal of the European Union L 176/ 2013). There are also delegated and implementing regulations of the European Commission which concern conducting business of credit institutions in Croatia, as well as other relevant acts which regulate corporate business activities in the Republic of Croatia, and corporates and credit institutions with headquarters in Croatia in part in which they conduct business with foreign entities (e.g. acts of other countries, international contracts related to anti-money laundry, international payments etc.).

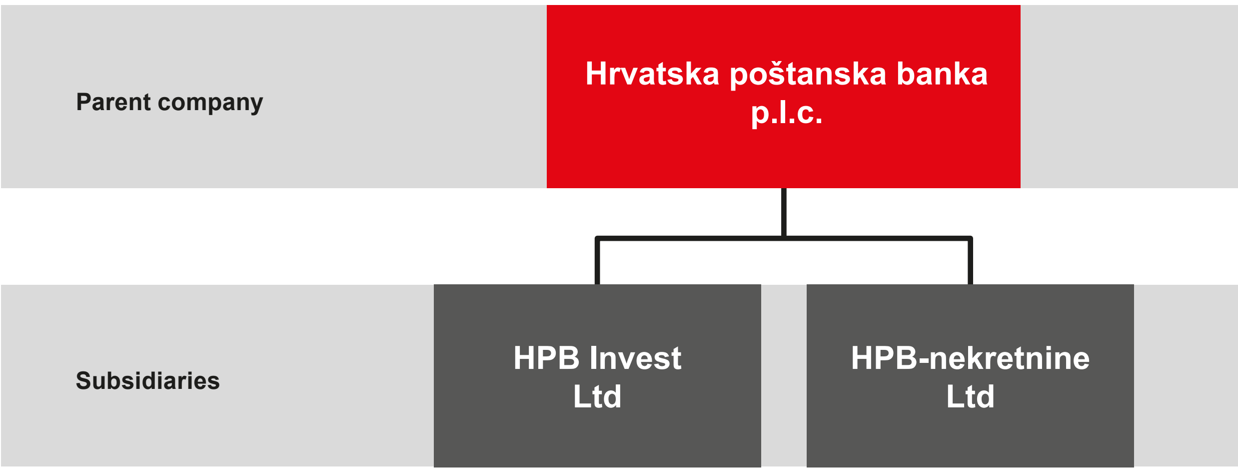
The Bank as an obligator of Act on the Prevention of Money Laundering and Terrorist Financing (OG 108/2017, 39/2019), undertakes in its operations measures, actions and procedures prescribed by this Act in order to prevent and detect money laundering and terrorist financing and implement preventive measures to prevent use of the financial system for money laundering and terrorist financing. In relation to the above, the CNB provided a notice to credit institutions on the application of the new *Guidelines of the European Supervisory Authority on risk factors for money laundering and terrorist financing EBA / GL2021 / 02 of 1 March 2021*, which repeal the existing Guideline JC / 2017/37 and complements them by transposing changes to the EU legal framework related to the prevention of money laundering and terrorist financing as well as new risks of money laundering and terrorist financing. The revised Guidelines entered into force on October 26, 2021 and represent additional expectations of the CNB that should guide companies obliged to implement measures and procedures to prevent money laundering and terrorist financing in assessing the risk of money laundering and terrorist financing in the entire business. The CNB also emphasizes that the factors and measures described in the Guidelines are incomplete and that companies should take into account other factors and measures to prevent money laundering and terrorist financing that are important for their business.

Given that the Republic of Croatia, directly or through companies, is the majority owner of the Bank's shares, the Bank applies as relevant the special laws and bylaws for companies in majority state ownership.

Overview of HPB Group and Bank's Position in the Group

HPB p.l.c. is part of a group of linked entities according to the Credit Institutions Act, and is 100% owner of the following companies which make HPB Group:

	Industry	State	Ownership %
HPB Invest Ltd	Investment fund management	Croatia	100.00
HPB-nekretnine Ltd	Real estate and construction	Croatia	100.00



Hrvatska poštanska banka p.l.c. is not a member of a concern in terms of the Companies Act.

HPB-R-A Stock

HPB Stock is listed on ZSE's Official market. Last share price at the end of 2021 amounted to HRK 730.00 (trading day 30.12.2021), representing a decrease by 55.32 percent in comparison with the last price achieved in 2020 (HRK 470.00 trading day 30.12.2020).

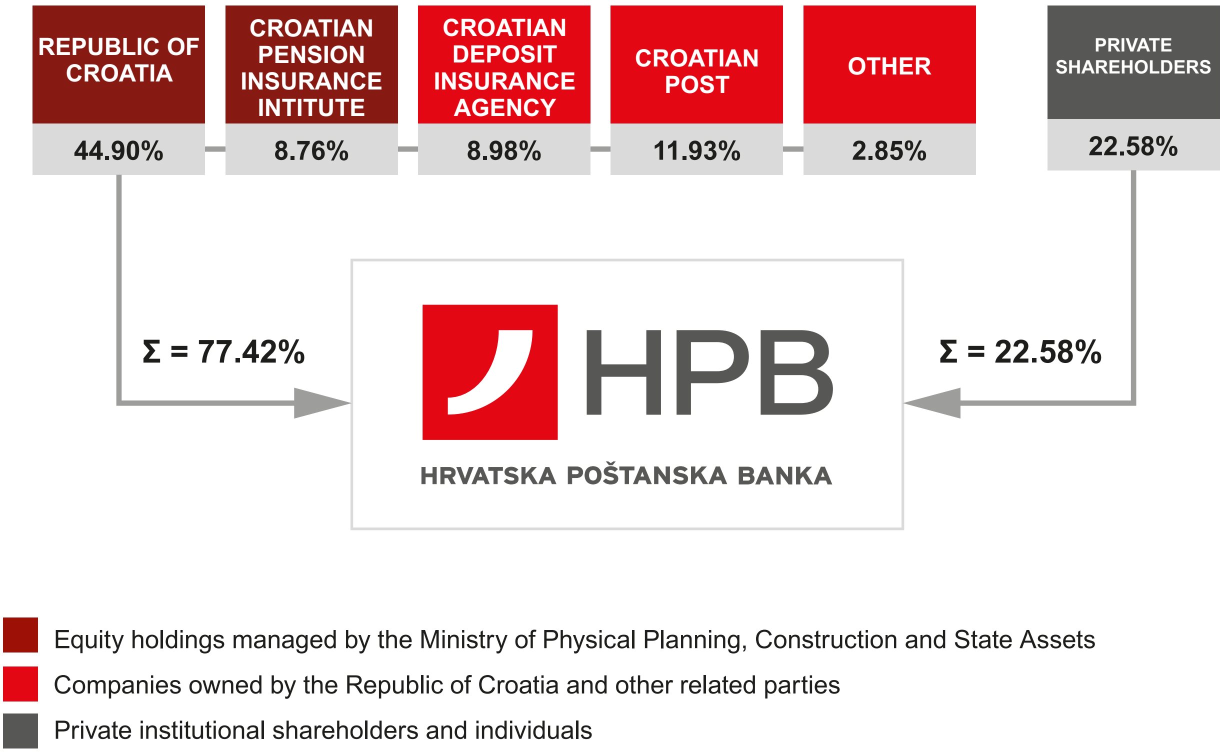
Trading of HPB-R-A stock during the reporting period was as follows:

Stock data and details

Issue date	December 12, 2000
ISIN	HRHPB0RA0002
Segment	Official market of the Zagreb Stock Exchange
Listed quantity	2,024,625
Share price as at December 30, 2021 (in HRK)	730.00
Market capitalization (in HRK million)	1,477.98

Ownership Structure of Hrvatska poštanska banka p.l.c.

On December 31, 2021 the Bank's ownership structure was as follows:

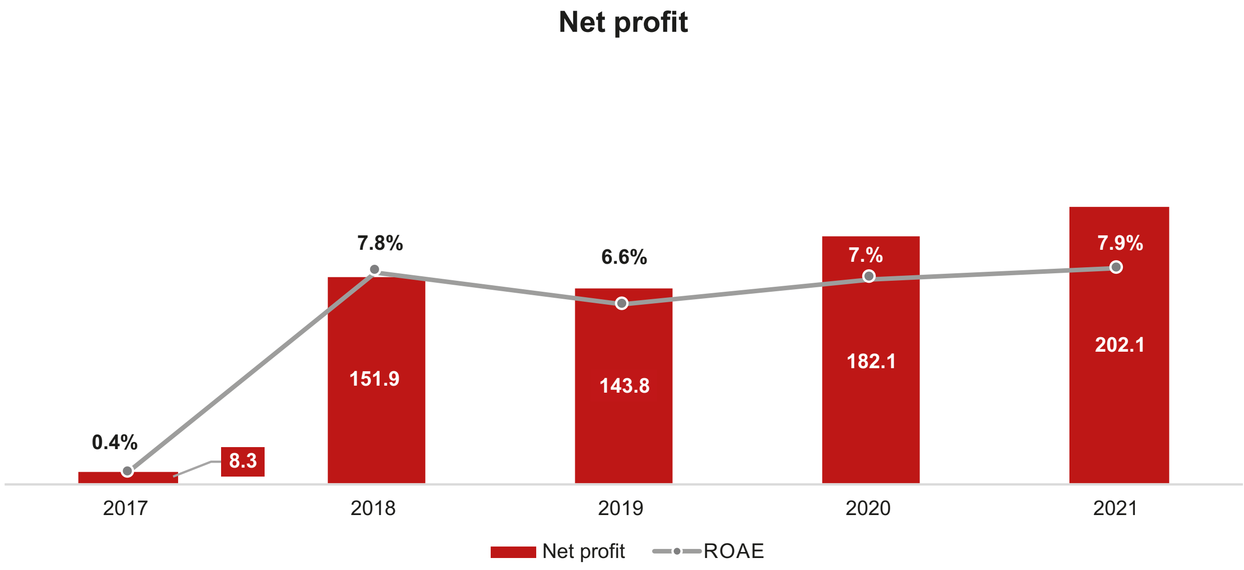


Source: CDCC

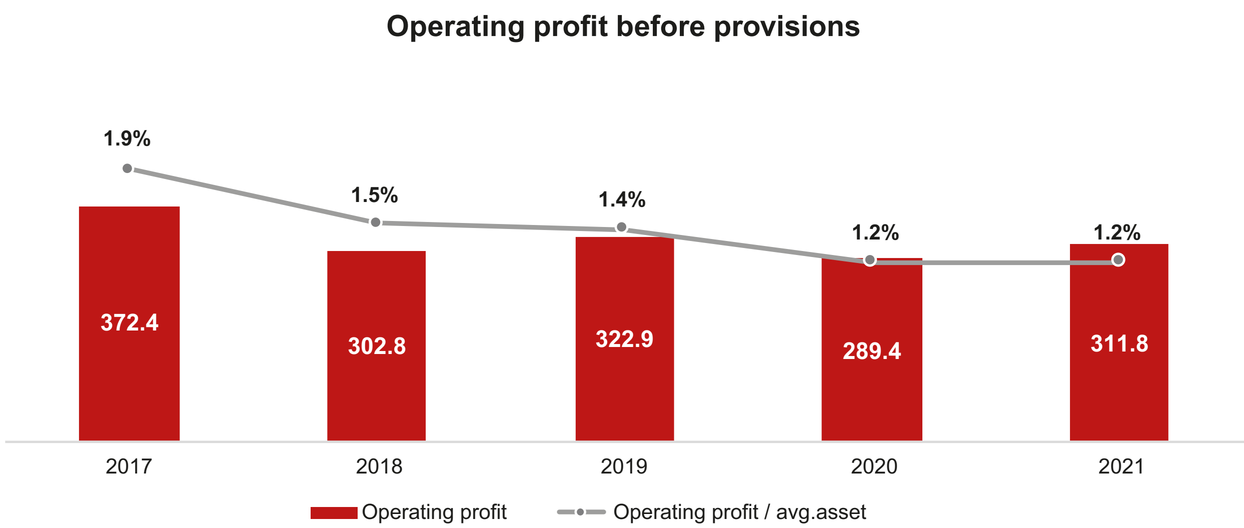
On December 31, 2021 Republic of Croatia through the Ministry of Physical Planning, Construction and State Assets controlled 77.42% of the equity and voting rights of the Bank.

Business and financial overview

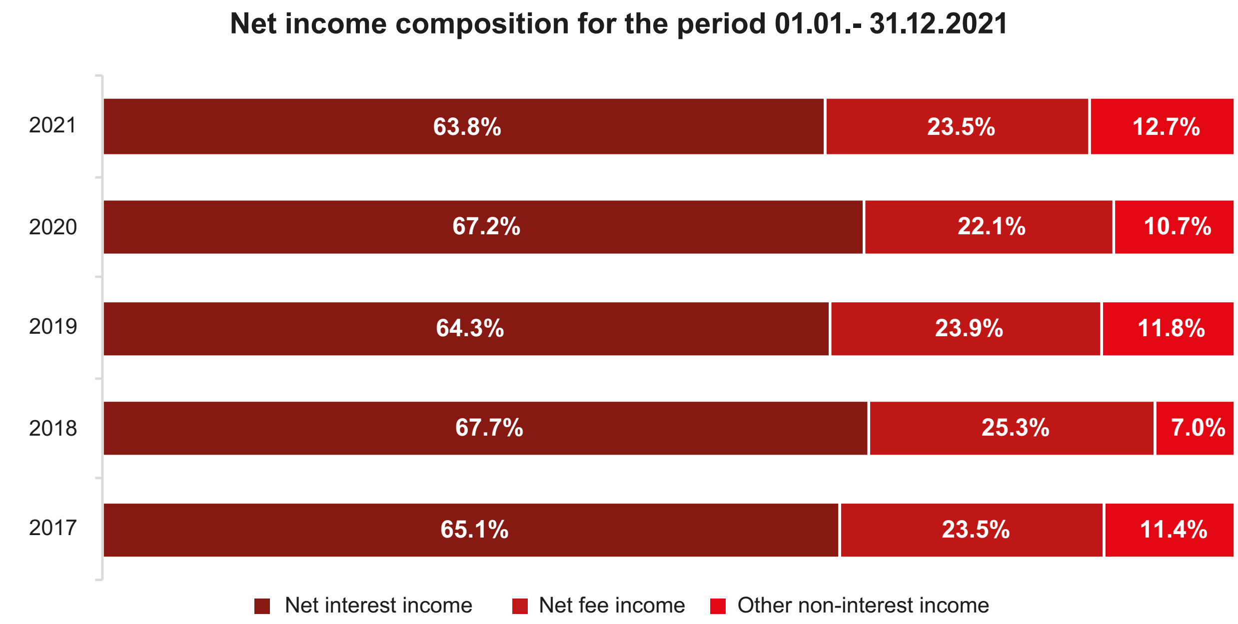
In 2021 the Bank made a net profit after tax in the amount of HRK 202.1 million.



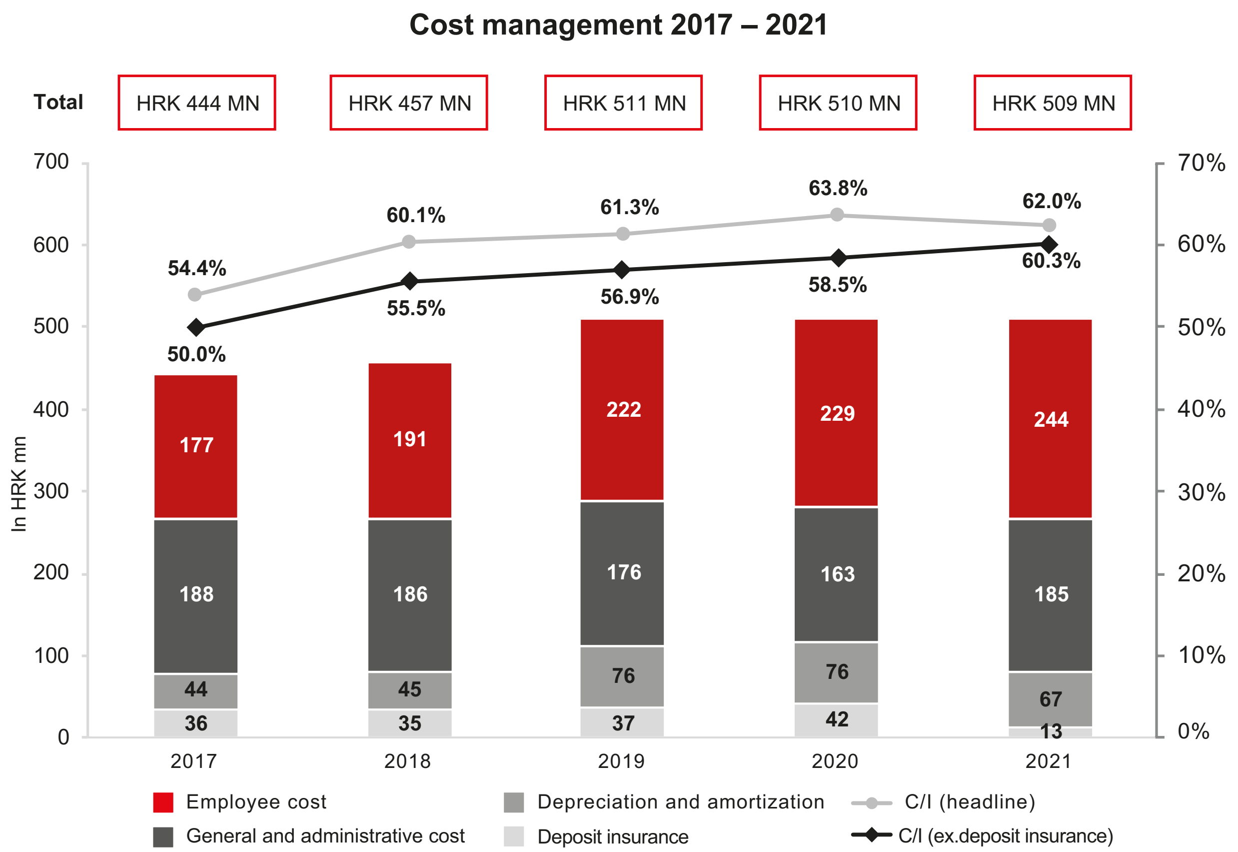
Operating profit before provisions amounts of 311.8 million. Provisions for loan losses and other impairments of financial and non-financial assets amounts HRK 65.8 million, while cost from the reversal of provisions for liabilities and charges amounts to HRK 307 thousand.



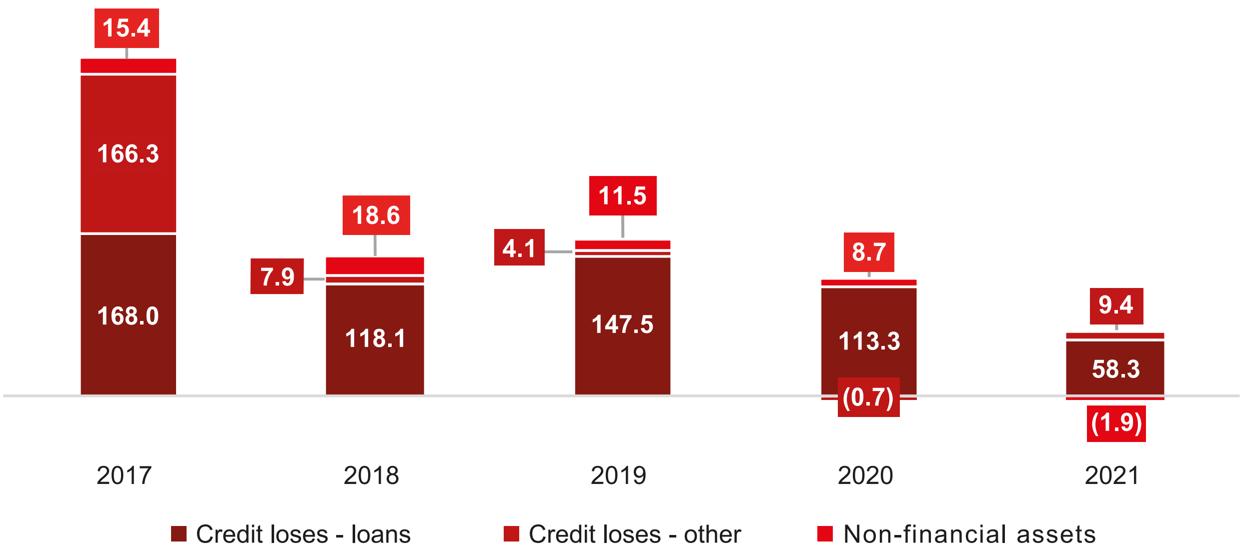
Net interest income in the amount of HRK 524.1 million generates share of 63.8 percent in the total operating income.



Operating expenses decreased slightly, mainly due to lower depreciation costs and the abolition of the deposit insurance fee. Compared to 2020, the cost of employees increased due to investments in IT internal resources and general and administrative costs due to activities aimed at timely resolution of regulatory obligations and improvement of the Bank's process in order to eliminate technological debt. The Bank continues its efforts to manage costs as efficiently as possible.

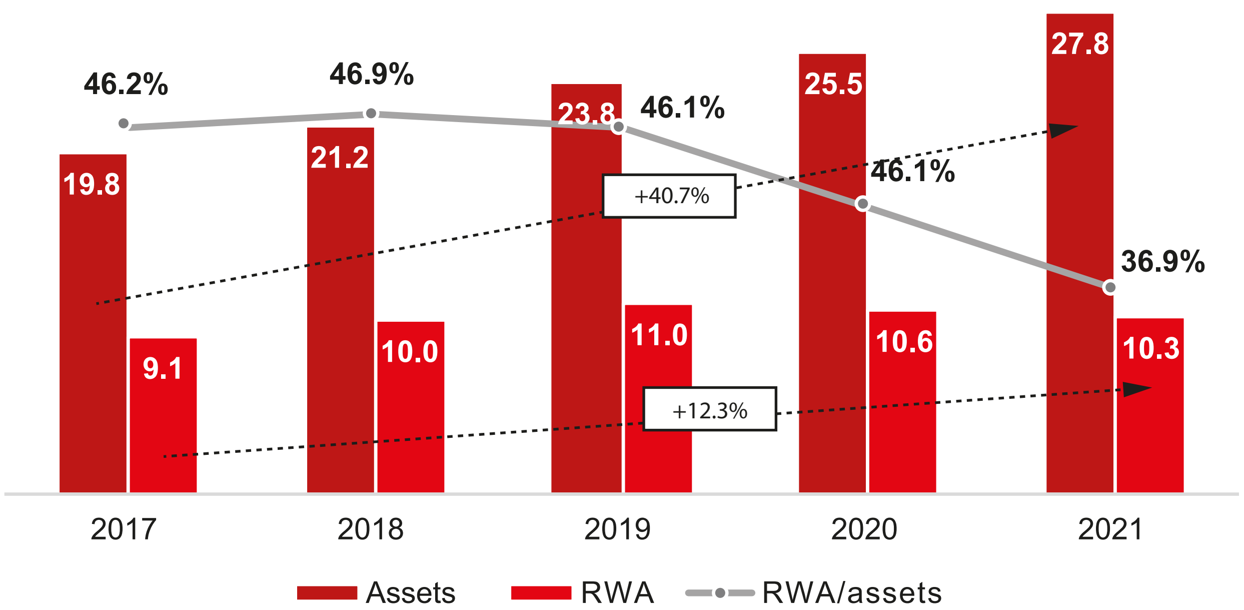


Provisions for losses



Portfolio optimization has resulted in a reduction in risk costs despite the effects of COVID 19.

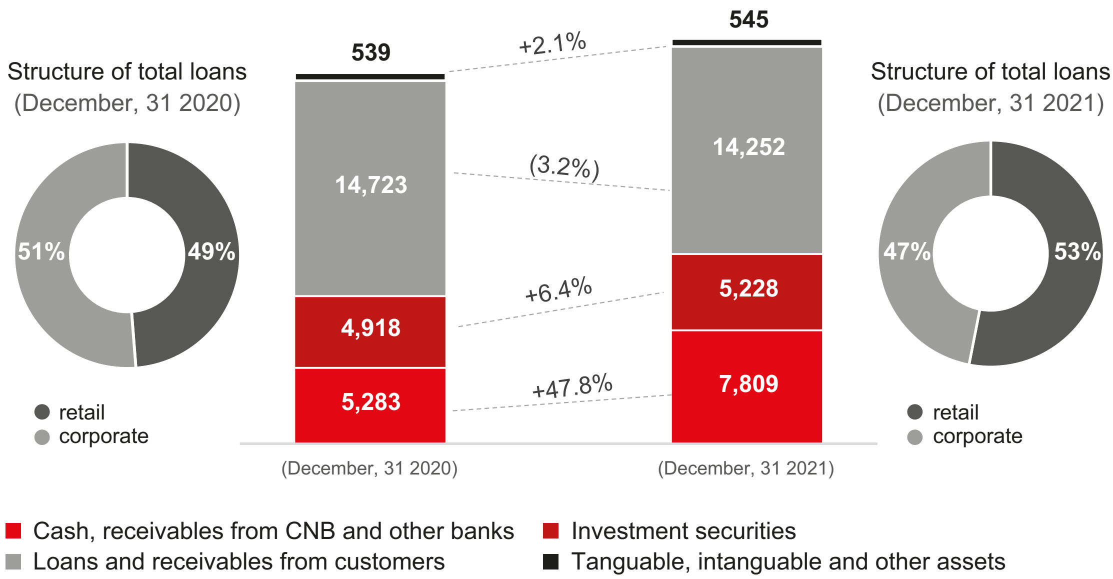
Assets and RWA



In parallel with the growth of assets and loans and receivables from the Bank's customers, the risk-weighted assets decreased as a result of the strengthening of the capital management culture.

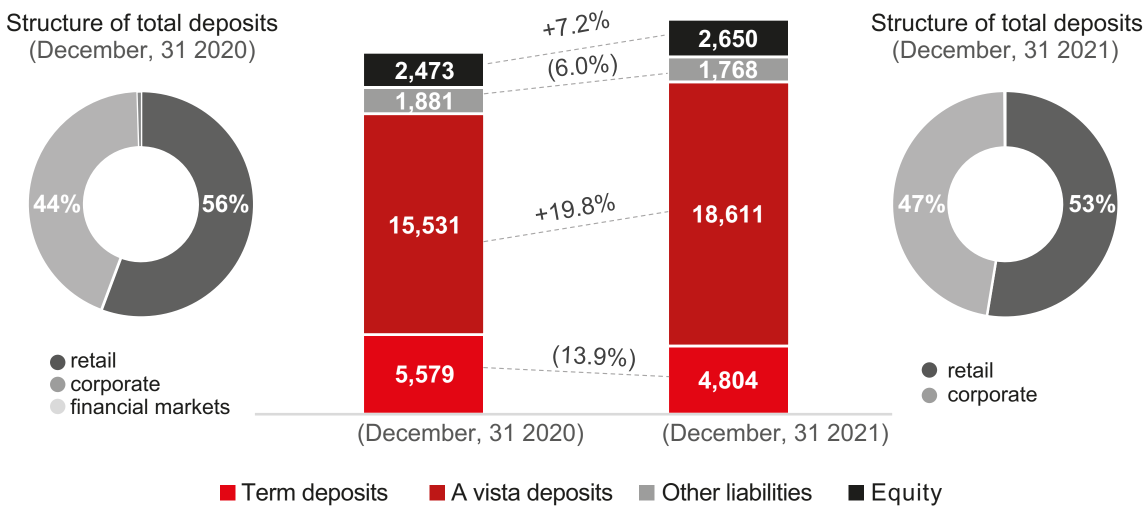
At the end of 2021, the Bank's assets amounted to HRK 27,833 million, which is an increase of HRK 2,369 million (+9.3 percent) compared to 2020. With 51.2 percent, loans and receivables from customers make up the most significant part of the asset structure.

Assets composition



Total deposits grew by 10.9%. Retail and corporate are on the rise, with a noticeable spillover from term deposits (- 13.9%) to a vista deposits (+ 19.8%), which has a favorable impact on the average cost of resources.

Liabilities and equity composition



Description of business segments

RETAIL SEGMENT OPERATIONS

528 thousand total clients	20 thousand new clients

Retail business is done through the Bank's own network of 9 regional centers, 51 center and 6 outlets, as well as HP's distribution channel with more than 1,000 post offices distributed all over the Republic of Croatia.

In the past year, which continued in a pandemic atmosphere, the Bank recorded the stability of deposits, which as at 31 December 2021 amounted to HRK 11.8 billion, 2% higher than in previous year. Of that, a vista deposits amounted to HRK 8.1 billion, and term deposits amounted to HRK 3.7 billion, which shows the continuation of the trend of spilling term deposits into a vista deposits.

With the overflow into a vista, 2021 was marked by a decline in interest rates on liabilities, which resulted in a 50% reduction in interest expenses compared to the previous year.

The total retail gross loan portfolio at the end of 2021 amounted to HRK 8.2 billion which is a 5% increase over the year before. In 2021, the market share of total loans continued to grow by 0.2% compared to the same period last year, and the share of housing loans increased by 0.5%.

The growth of the deposit and loan portfolio is the result of stable operations, quality services, customer loyalty and the recognition of the Bank as a stable financial participant in Croatian banking industry despite all the circumstances to which the Bank had to adapt due to the pandemic and the measures introduced to restrict clients' access to the Bank's centers.

2021 achievements:

Sales / development

In 2021, in the part of the gross loan portfolio related to housing loans, HPB grew by 15%, which is a continuation of the Bank's strategy to make a bigger step in safer collateralized placements, but also offer quality products and services to younger clients. a secure and long-lasting customer base of the Bank.

In addition to participating in APN, as there was only one grant competition in 2021, the Bank worked to create preconditions for the acquisition of new clients and continued to build its image of 'Bank for Important Life Decisions' and a reliable partner for housing loans.

51 center and 6 outlets

6 regional centers

Payment services in HRK and contracting

Bank’s products and services in 1,015 post offices
for retail clients while services for corporate clients are available at 987 locations

Loan services to retail clients in HP financial corner at 142 locations.

DIRECT CHANNELS DIVISION OPERATIONS

Card business

504 ATM	**733 thousand** valid cards
15 various card products	**3,199** EFT-POS terminals

In 2021, the Bank signed an Agreement on the expansion of business cooperation with Visa Europe and the replacement of its card portfolio with the Visa brand.

Visa brand is one of the most important card brands in the world, and by switching, all conditions and benefits that customers have had so far for existing cards will be transferred to a new, Visa card with possible improvements in functionality for certain types of cards.

During 2021, the migration of debit cards took place and the debit portfolio of cards from Cirus Maestro, Mastercard Debit and Visa Electron was consolidated into a Visa debit card. A total of 346,000 debit cards were migrated, representing 76% of the debit card portfolio.

Bank had a total of 733,454 valid cards on 31.12.2021, which is 59,979 less than in 2020, as a result of the consolidation of debit cards from three brands on Visa Debit. Of the total number of valid cards, 98.13% refers to cards issued to natural persons, and 1.87% were issued to business entities.

The bank realized a total of 31.1 million transactions, which is an increase of 9.4% compared to the previous year. The total volume of transactions amounted to HRK 13.6 billion, which is approximately the same value as last year. The number of transactions with the Bank's cards amounted to 28.1 million, which is an increase of 10% in comparison with 2020.

The increase in the number of transactions with cards of other banks at the Bank's acceptance points is 18.1%.

The number of EFTPOS terminals is 3.5% higher than last year, and the number of ATMs is approximately at similar levels as last year.

The trend of increasing the number of ecommerce transactions (on the Internet) with the Bank's cards is on the rise and amounts 8.5% more than last year.

In accordance with the Bank's business strategy, in which one of the guidelines is the digitalization of business, in 2021 the project „Mobile Payment" was launched, which will, in cooperation with VISA and company Netsi, introduce card virtualization service and enable payments to virtual bank cards via Google Pay system.

Together with the Croatian Post, the Bank implemented a payment card payment service on „Paketomat" self-service devices. Thus, the Bank introduced for the first time the payment service at self-service EFTPOS terminals outside the Bank and positioned itself in the segment of card acceptance on such devices, and at the same time expanded the offer in the area of card acceptance.

As of the end of 2021, 119 Paketomat devices have been installed and in 2022 a significant increase in the number of transactions is expected.

Digital banking

At the end of 2021, the number of Internet banking users for retail amounted to 69 thousand, which represent a decrease by 0.1% compared to 2019. Retail clients prefer the mobile banking channel and, accordingly, the number of mobile banking users is growing.

At the end of 2021, the number of mobile banking users is 113 thousand, which represent an increase by 7.4% compared to 2020. The number of transactions is 24.5%, and the volume is 30.8% higher than in 2020.

The number of corporate clients that have a contracted Internet banking service is more than 9 thousand, which is an increase of 14% compared to last year. Also, a large increase is recorded in the number of corporate clients with contracted mobile banking, which is as much as 30% higher than in 2020.

2021 achievements:

PSD2
Continuation of further development of the PSD2 interface and intensive preparation of the PSD2 interface for the changeover to the euro.

mHPB application
Continuous upgrade of mobile banking for retail and corporate clients with new functionalities, including:

- mHPB application support for Huawei devices
- Improved home screen design
- Implemented the ability to change the theme of the application
- Ability to pay bills by uploading a payment slip from the gallery
- Ability to switch applications from one device to another without the need to physically come to the branch
- Display of unregistered card transactions
- Functionality Donations through which it is possible to participate in the ecological-voluntary project of afforestation of Croatia - the functionality allows the payment of donations in favor of Croatian Forests.
- Possibility of payment through the register of indirect account identifiers (RPIR) and functionality mPlati - RPIR is a register in which it is possible to define an indirect way of identifying the recipient's account. This means that the owner can "link" his transaction accounts (IBANs) with his email, mobile device number and OIB. Thus, the indirect connection of the account with, for example, the mobile phone / email number enables payments in favor of the account by entering an indirect identifier or cell phone number/e-mail/OIB.

In addition to the above-mentioned functionalities, in 2021 intensive work was done on the redesign of the entire mHPB application. It will now have a fresh, modern design, and production is expected in early March this year. Also, intensive preparations were made for the adjustment of the application for the changeover to the euro.

Open a SuperSmart account online
Intensive activities to define the online contracting process of the HPB SuperSmart current / gyro account via the eBranch without the need to come to the physical branch.

Internet banking

- The possibility of payment through the register of indirect account identifiers (RPIR) has been introduced
- Preparation and announcement of a business application for the opening of the New Internet Banking project for corporate clients
- Intensive preparations needed to adapt the application for the changeover to the euro.

Overview of Retail Products and Services:

Product group	Products and services
Accounts	• Current account - domicile currency • Basic Account / Basic account for sensitive groups - domicile currency • Special purpose accounts - domicile currency • Switching payment accounts - domicile currency • Giro account – HRK/fx • Foreign currency account • Children account Kockica - domicile currency • SuperSmart HPB account - domicile currency • Payment operation – national/foreign, cash/non-cash, domicile currency/fx • Reporting – monthly/annually • Business with foreign checks • Standing orders • SEPA direct debit
Savings	• A vista deposit – HRK/fx • Children's open savings Flexy Kockica - domicile currency • Motiv Plus deposits – HRK/fx • HPB DUO plus savings - domicile currency/foreign currency • Non-purpose term deposits – HRK/fx • Multipurpose term deposits – HRK/fx • Term savings with multiple deposits – HRK/fx • Children term deposits – HRK/fx • Rent deposits- HRK/fx • Gift voucher HPB Kockica - domicile currency
Loans	**Housing loans** • Housing consumer loan in HRK with a combination of fixed and variable interest rates • Housing consumer loan in HRK with currency clause EUR with a combination of fixed and variable interest rates • Housing consumer loan in HRK • Housing consumer loan in HRK with currency clause EUR • Housing consumer loan in HRK without a mortgage • Housing consumer loan in HRK without a mortgage with a currency clause EUR • Housing consumer loan in HRK based on the Housing Loan Subsidy Act • Housing consumer loan in HRK with a currency clause EUR based on the Housing Loan Subsidy Act • Housing consumer loan in HRK with currency clause EUR for the purchase of apartments under the Program Socially encouraged housing program A • Housing consumer loan in Kuna with currency clause EUR for the purchase of apartments based on the Socially Incentived Housing Program A • housing consumer loan in HRK based on housing savings of HPB-housing savings bank • housing consumer loan in HRK with currency clause EUR based on housing savings of HPB-housing savings bank **Multipurpose loans** • Tourist loan in HRK • Tourist loan in HRK with currency clause EUR • Credit for the costs of enrollment in a private high school or grammar school, for undergraduate, graduate and / or postgraduate studies in HRK with a currency clause in EUR • Credit for settling the allowed overdraft on the current account in the Bank in HRK

Product group	Products and services
Loans (continued)	**Non-purpose loans** • Non-purpose cash loan in HRK • Non-purpose cash loan in HRK with currency clause EUR • Non-purpose cash loan in HRK with a combination of fixed and variable interest rates • Non-purpose cash loan in HRK with currency clause EUR with a combination of fixed and variable interest rate • Non-purpose cash loan for pensioners in HRK • Lombard loan secured by term deposit • Cash non-purpose mortgage loan in HRK with currency clause EUR
Cards	• Debit Mastercard contactless card • VISA Electron/Debit current account card • Maestro current account card • Mastercard debit gyro account card • VISA prepaid card • VISA prepaid card for young people - IDEEEŠ! • Visa installments card • Gold Mastercard card • Mastercard Pošta & HPB card • Mastercard credit card (revolving) • Mastercard deferred payment card (charge)
E - banking	• mHPB • mToken • Internet banking • SMS / e-mail services • e-account • e-cash • e-citizens
HPB Invest	• HPB short-term euro bond fund • HPB short-term Kuna bond fund • HPB bond fund • HPB Bond plus fund • HPB Global fund • HPB Equity fund
Croatia osiguranje	• Car liability policy • CPI • CO Assets • Accident insurance policy • Travel health insurance policy • Life insurance policy BASIC • Life insurance policy PREMIUM • CO scholarship • EXCLUSIVE Plus • Policy Krug života • Policy Riziko plus • Health insurance policy • Voluntary pension fund
Other	• Brokerage services through the channel “Kreditni posrednici” • RoboAdvice application consulting services - determining the suitability of open-end investment funds for the client • Exchange business • Safes

CORPORATE SEGMENT OPERATIONS

Large corporate and public sector

1,370 total clients	**5.4 bn** loan volume
773 local government and self-government units and affiliated companies	**8.7 bn** deposit volume

The large corporate and public sector division provides banking services to 1,370 clients, striving to continually improve services and innovate to better meet customer needs. Although 2021 is characterized by new circumstances caused by the COVID-19 pandemic, there has been a further increase in the number of clients, especially in the segment of business with local governments, which is influenced by the launch of the pilot project Payments of Legal Entities in Hrvatska pošta.

The level of gross loans to legal entities in the large corporate and public sector amounts to HRK 5.4 billion. In the structure of gross loans to legal entities, loans to companies and republic funds have a dominant share, with HPB continuing to support companies and activities that generate value for the economy.

During 2021, we continued to enable businesses that were unable to meet their financial obligations due to the effects of the COVID-19 pandemic to contract assistance measures, such as approval of new liquidity loans. As additional assistance measures, the Bank, in cooperation with CBRD and HAMAG-BICRO, offer new credit lines to ensure liquidity on favorable terms.

Total deposits of corporate clients of the large corporate and public sector (excluding bank deposits) as at 31 December 2021 amounted to HRK 8.7 billion, of which demand deposits amounted to HRK 7.9 billion and primarily related to clients from the central government segment. The recorded increase in deposits also stems from a significant acquisition of clients and system liquidity.

The situation of high liquidity of the overall financial system and strong interbank competition posed a major challenge for the Bank. The development in the segments of large companies, central government and local governments in 2021 was influenced by two important factors, namely adjustments to the risks of recovery from the primary pandemic strike that occurred in 2020 and exceptional price competition in the banking sector.

The large corporate segment showed a certain recovery during 2021, but the absence of significant investments affected the impossibility of a significant expansion of lending activities. Demands for liquid assets and attempts to refinance existing liabilities of quality clients in search of more favorable interest rates and reducing the cost of financing predominate. More lucrative work related to project financing of renewable energy sources was completely absent due to the incomplete process of establishing a premium system to encourage production, while the tourism sector postponed larger investments for future periods. In the given conditions, the focus is on the preservation of the substance through quality risk control in anticipation of a stronger economic momentum in the year ahead.

The central government and local self-government units based their financing strategies through 2021 on one simple idea - financing through invitational tenders - with the aim of obtaining as cheap funds as possible. In these conditions, the Bank has created its position by trying to realize those opportunities that do not represent too great a price compromise. The central government realized a significant part of its financial needs on the market by issuing bonds, significantly reducing the space for lending, and the credit funds acquired through tenders were mostly below the acceptable price threshold for the Bank.

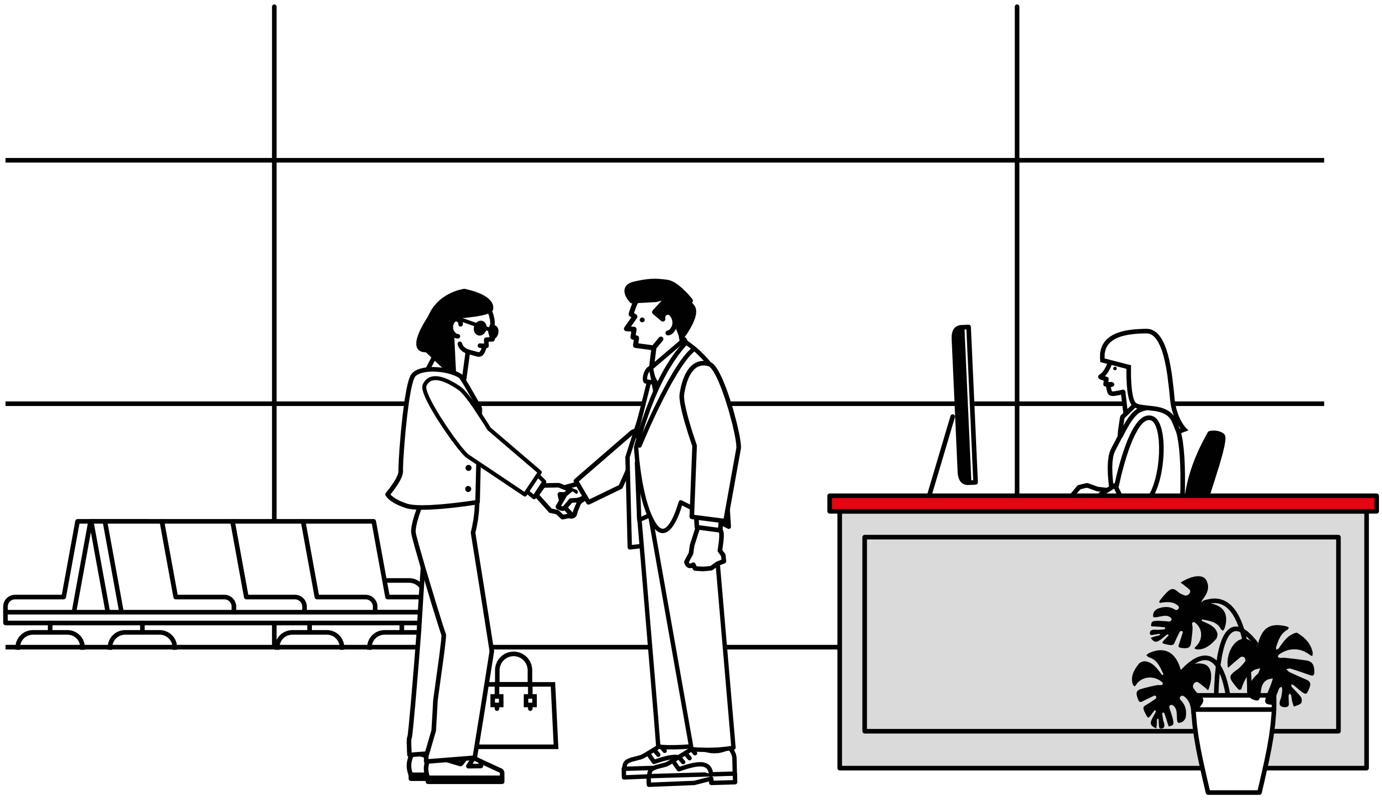
Local self-government units realized a number of investments in communal infrastructure, in which the Bank achieved a quality result, but the postponement of certain announced investments (especially in the southern counties) affected it to be significantly better. Local elections have also significantly slowed down activities in this segment, so it is to be expected that their business activities and the need for financing will intensify over time.

The development of new products and strengthening of the Bank's specialization continued, especially in the segment of co-financing projects from ESIF funds through the established EU desk in order to provide expertise and achieve excellence in monitoring clients of both public and private sector in financing and implementing projects from ESIF funds. Project financing has also been established with the aim of monitoring large projects in infrastructure, energy, tourism, etc., in order to be in line with the increase in demand for investment loans.

Successful business cooperation with CBRD and HAMAG-BICRO in all programs, as well as cooperation with the EBRD and the EIB continues.

As before, the large corporate and public sector will continue to cooperate intensively in the coming period and provide credit support to large economic entities, state units, as well as local government units. The focus will be on the dispersion of the loan portfolio in favor of large privately owned companies and local governments and on the growth of non-interest income with the continuous improvement of quality and expansion of the range of services.

New products for business entities, redesign of Internet banking for business entities and improvement of payment and transaction solutions are being prepared.



Small and medium enterprises

10,364 total clients	**2.2 bn *** loan volume
6 regional centers	**1.9 bn** deposit volume

** included craftsmen*

The SME business sector provides banking services to more than 10,000 clients, with an emphasis on business innovation and continuous improvement of financing opportunities.

In 2021, the Bank continues to face the great challenges posed by the COVID-19 epidemic. In line with this challenging market environment, the SME Division focuses its efforts on quality management of the existing portfolio with a conservative approach to new investments and focuses on contracting moratoriums, reprograms and new sources of liquidity for clients affected by the COVID-19 pandemic.

As at 31 December 2021, gross placements of business entities in the SME Sector amounted to HRK 2.2 billion, while value adjustments amounted to HRK 428.4 million. Total deposits of business entities in the SME Sector amounted to HRK 1.9 billion, with a vista deposits amounting to HRK 1.7 billion and term deposits to HRK 0.2 billion.

HPB is continuously engaged in creating complete financial solutions for small and medium-sized enterprises with an increasing emphasis on the micro segment.

With the aim of expanding the network of banking services and bringing the bank closer to customers in every part of the country, HPB continues the project “Bank at the Post” providing its services to businesses and thus becoming the largest distribution channel of basic banking products and services in Croatia

2021 achievements:

- **Strengthening cooperation with HAMAG BICRO, HBOR, EIB and other partners**
- **Digitalization**
- **Client portfolio rationalization**

In 2021, Hrvatska poštanska banka strengthened its existing cooperation with HBOR, HAMAG BICRO and the EIB, all in order to provide its clients with the most favorable financing conditions.

In this challenging period, the clients of the SME Division recognized the benefits of the Bank’s cooperation with HAMAG BICRO, especially through the National Guarantees for Certain Activities program.

The fact that the participation of the SME Division in HAMAG BICRO national guarantees is more than 10 times higher than the market share of the Division speaks in favor of it. The continuous introduction of guarantee schemes has had a positive impact on RWA and portfolio stabilization.

With the constant introduction of innovations, fast and simple services, Hrvatska poštanska banka is developing in the direction of digital banking. Currently, 3 out of 4 clients use digital banking services in the Small and Medium Business Sector.

The SME business sector is focusing special efforts on streamlining the client portfolio and complying with regulatory requirements, which are manifested through an increase in the share of active clients and a fully updated client base from the regulatory aspect.

Overview of products and services in the corporate segment:

Product group	Products and services in 2021
Payment operations	• Transaction account • Entrepreneur Packages • Cash pooling • Escrow account • Cash payments • Non-cash payments • Reporting on the status and changes on account • Solvency data (BON2) • SEPA direct payments • SEPA credit transfers • International payment services • EFTPOS • E-commerce
SME financing	**Short-term financing** • Corporate Account Overdraft • Loans for Working Capital • Revolving loans • Loans for refinancing • Interfinancing loans • Margin loans • Loan with fixed-term deposits • Loans for preparation of tourist season • Agricultural loans • Loan for the preparation of exports and for the export of goods based on foreign exchange inflows • Discount of bills of exchange of creditworthy companies • Discount of securities, bonds, commercial papers and bills of exchange with government institutions • Loan based on cession on credit rating companies in the country • Loan based on cession from state institutions • Purchase of credit rating companies' claims (factoring • Purchase of receivables from state institutions (factoring) **Long-term financing** • Loan for working capital and permanent working capital • Loan for investments in fixed assets - investment • Loan for refinancing liabilities • Loan with fixed-term deposits • Loans for preparation of tourist season • Agricultural (Agro) Loan • Loan to exporters for the purchase of fixed assets • Loan for improving energy efficiency and for renewable energy • Loan for all kinds of works on common parts of the building • Loan for the renewal of buildings damaged in earthquakes • Loan for the purchase of ECO MOBILE equipment **Frames for financial monitoring** • Framework for the use of short-term and long-term products (loans, guarantees, letters of credit) • The framework for the purchase of receivables **Special loan programmes – in cooperation with CBRD** • Loan program: Entrepreneurship of young people, women and beginners • Loan program: Private sector investment

Product group	Products and services in 2021
SME financing (continued)	• Loan program: EU projects • Loan program: Export preparation • Loan program: Working capital • Loan program: Financial restructuring • Framework Loan - Working capital loans • Framework Loan – Investment financing • Export Guarantee Bank Insurance Program • Working capital loan portfolio insurance program for exporters **COVID credit programs - in cooperation with CBRD** • Framework loan for working capital number: COV3-20-1100795 • Export Liquidity Loan Portfolio Insurance Program - Covid-19 Measure-S-OPK-COVID-03/20 • Framework loan for working capital number: COV6-20-1101210 **Special loan programmes – in cooperation with HAMAG-BICRO** • ESIF program (individual guarantees co-financed by EU Structural and Investment Funds) • ESIF (Limited Portfolio Guarantee) Program • HAMAG individual guarantees for rural development • 'PLUS' guarantee program **COVID credit programs - in cooperation with HAMAG-BICRO** • Guarantee Program for the allocation of state aid to the maritime sector, transport, transport infrastructure and related activities in the current COVID-19 pandemic • Guarantee Program for loans for entrepreneurs active in the field of culture and creative industries **Special loan programs - loans in cooperation with MINPO, the City of Zagreb and the counties** • Program "Credit to Success 2014, Measure 1 - Credit to Competitiveness" with the Ministry of Entrepreneurship and Crafts and Counties • Program "Credit to Success 2014, Measure 2 - Credit to Successful Business" with the Ministry of Entrepreneurship and Crafts and Counties **Special Credit Programs - in collaboration with the EIB** • Credit to small and medium-sized enterprises (SMEs) and medium-capitalized (Mid-Cap) enterprises **Special Loan Programs - In cooperation with the EBRD** • Loan for micro, small and medium-sized enterprises • Loan to women entrepreneurs • Loan for financing the energy efficiency of apartment buildings • Loan for financing the energy efficiency of businesses **Special loan programmes – other** • Loans in cooperation with Craftsmen Society of Zagreb • Loans for member of Croatian Lawyers' Association • Loans in cooperation with the Ministry of Croatian Veterans for micro, small and medium-sized enterprises of Croatian veterans and children of Croatian veterans

Product group	Products and services in 2021
Large corporate financing	See below

Product group: Large corporate financing

Products and services in 2021

Short-term financing

- Corporate Account Overdraft
- Loans for Working Capital
- Revolving loans
- Loan for refinancing liabilities
- Interfinancing loan
- Margin loans
- Loan with fixed-term deposits
- Loans for preparation of tourist season
- Loans for Financing Stocks of Sugar, Wheat and Other Commodities
- Agricultural (Agro) Loan
- Loan for the preparation of exports and for the export of goods based on foreign exchange inflows
- Discount of bills of exchange of creditworthy companies
- Discount of securities, bonds, commercial papers and bills of exchange with government institutions
- Loan based on cession on credit rating companies in the country
- Loan based on cession from state institutions
- Purchase of credit rating companies' claims (factoring)
- Purchase of receivables from state institutions (factoring)

Long-term financing

- Loans for permanent working capital
- Loan for investments in fixed assets - investment
- Loan for refinancing liabilities
- Loan with fixed-term deposits
- Loans for preparation of tourist season
- Agricultural (Agro) Loan
- Loan to exporters for the purchase of fixed assets
- Loan for improving energy efficiency and for renewable energy
- Loan for all kinds of works on common parts of the building
- Loan for the purchase of ECO MOBILE equipment
- Project financing

Frames for financial monitoring

- Framework for the use of short-term and long-term products (loans, guarantees, letters of credit)
- The framework for the purchase of receivables

Special Loan Programs - In cooperation with CBRD

- Loan program: Private sector investment
- Loan program: Public sector investment
- Loan program: EU projects
- Loan program: Export preparation
- Loan program: Working capital
- Loan program: Financial restructuring
- Framework Loan - Working capital loans
- Framework Loan - Investment Lending
- Export Performance Bank Guarantee Insurance Program

COVID credit programs - in cooperation with CBRD

- Framework loan for working capital number: COV3-20-1100795
- Exporter liquidity loan portfolio insurance program - Covid-19 measure - S-OPK-COVID-03/20

Product group	Products and services in 2021
Large corporate financing (continued)	**Special Loan Programs - In cooperation with EIB** • Loan to Mid-Cap Enterprises and Public Sector Entities • Loan to public sector entities • Loan to private sector entities **Special Loan Programs - In cooperation with EBRD** • Loan to women entrepreneurs • Loan for financing the energy efficiency of apartment buildings • Loan for financing the energy efficiency of businesses
Guarantees and letters of credit	• Performance guarantees • Payment guarantees • Counter guarantees and Super guarantees • Nostro (import) letter of credit/Stand by letter of credit • Loro (export) letter of credit/Stand by letter of credit • Documentary collections
Cards	• VISA Business debit • VISA Bonus Plus • VISA Prepaid business card • VISA Business with delayed payment
E-banking	• mHPB • mToken • Internet banking • SMS service
Deposits	• Term deposits in HRK/fx • A vista deposits in HRK/fx
Letter of intent	• Non-binding letter of intent • Binding letter of intent
Other	• Croatia insurance package Croatia poduzetnik • HPB Invest products • HPB nekretnine services

FINANCIAL MARKETS OPERATIONS

2021, both on the world and domestic markets, was still marked by the continuation of the corona virus pandemic. Given the previously launched pandemic programs of central banks, there were no liquidity problems. Indeed, extremely high liquidity, as well as disruptions in supply chains, began to lead to inflationary pressures, which began to manifest itself in the second half of the year. Thus, at the end of the year, both the Eurozone and the United States recorded the highest inflation rates in the last 30 and 40 years, respectively. Such a situation prompted central banks to reduce and announce the final closure of pandemic bond repurchase programs in early 2022, as well as the announcement of the likely start of growth in reference interest rates.

In the moments of record excess liquidity in the domestic banking system, which reached new high levels of HRK 80 billion, the main challenge remained the management of liquidity reserves in terms of creating an adequate portfolio of liquid instruments with appropriate yield levels.

Given the historically low yields on auctions of treasury bills of the Ministry of Finance of the Republic of Croatia, as well as the yields of money market funds, investments are mostly focused on debt instruments with fixed yields.

Also, the stock markets had an excellent year, so the Bank, through its shares in the equity and mixed funds of HPB Invest, recorded an increase in value, which had a positive effect on trading income.

Due to such high liquidity, the Bank did not participate in regular repo auctions held by the CNB in 2021 and successfully maintained the prescribed liquidity ratios and ratios. The liquidity coverage ratio at the end of the year is a high 183%.

In terms of foreign exchange trading and foreign exchange earnings in 2021, the Bank achieved a record result despite still reduced volumes compared to the years before the outbreak of the pandemic. The largest contribution to this result came from the management of the foreign exchange position and slightly more open positions, primarily in EUR, with acceptable levels of risk.

In the part of sales of treasury products and in the part of foreign exchange trading, the Bank maintained its activity in cooperation with corporate clients through contracting spot and forward purchase and sale of foreign currency despite smaller volumes than in previous years.

In the area of cash operations, the Bank is still one of the most important participants. With a wide network of branches and exchange offices of the Bank, through cooperation with FINA cash services, the Bank offers a competitive service in trading and supply of cash. In this area, there has been a recovery in volume, which is mainly related to foreign exchange business as a result of a solid tourist season. However, these volumes are still lower compared to the pre-pandemic period, and we expect the recovery to continue in 2022.

Investment banking

After growing at the beginning of the year, the capital market in 2021 was marked by slightly stronger volatility in both prices and turnover, and the total turnover on the Zagreb Stock Exchange was 19% lower than in the previous year. At the same time, all indices strengthened significantly, and the Crobex index recorded a growth of 19.55% last year.

In 2021, the Bank also participated as a co-partner in the issue of bonds of the Ministry of Finance of the Republic of Croatia on the domestic market.

In the area of custody and depository services for pension and investment funds, the Bank improves and harmonizes its services with numerous regulatory requirements and changes, and in this segment it also records continuous growth of assets under the custody and depository service.

Financial markets products and services:

Products	Description
Domestic Trading	• Trading (buy and sell) in domestic financial instruments • Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio • Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
Regional Trading	• Trading in financial instruments in Montenegro, Serbia, Macedonia and Bosnia and Herzegovina Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio • Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
Global Trading	• Trading in leading global financial instruments. • Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio. • Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
Portfolio Management	• The portfolio management service is a specialized service that enables users to entrust their funds to the Bank for management. • The service is intended for people who, in accordance with their own goals and limitations, want to invest in securities and other financial instruments for a period longer than one year in order to achieve additional income. • Every month or even more often, clients receive a report on all activities and changes in the value of financial instruments in their portfolio, i.e. a report on the movement of the value of invested funds
Investment Services	• Investment services include investment advisory services and those related to capital structure consulting, business strategies and related issues, as well as consulting and services related to mergers and acquisitions in companies, and other services in the investment banking segment.
Securities Issuance	• The Bank manages issuances for the following financial instruments: a) debt financial instruments - short-term (commercial papers) and long-term (bonds) b) equity financial instruments - shares • When issuing financial instruments, the Bank offers services that cover the entire issuance process, i.e. include all activities related to the organization, preparation and implementation of registration and payment of securities, as well as other tasks for the issuer in order to achieve successful registration and payment.
Securities Custody	• The basis of custody consists primarily of activities related to the storage of assets and the implementation of settlement of transactions and monitoring of corporate activities. • Beneficiaries of custody services are active participants in the capital market, investment and pension funds and other institutional investors, as well as retail and corporate clients who invest their assets in financial instruments. • Custody services: custody and safekeeping of assets, settlement of transactions of financial instruments on the client's order, determination of the value of assets, notification of activities of joint stock companies, collection of income from financial instruments and reporting, representation at annual general meetings, notification of changes in legislation.

Products	Description
Depositor of UCITS/ AIF Investment and Pension Fund	• A depositary is a credit institution domiciled in the Republic of Croatia or a branch of a credit institution of another member state, established in the Republic of Croatia, which has the approval of the CNB (or the competent authority of that member state) to store and administer financial instruments on behalf of clients including depositary and related services, entrusted to: - control activities of the fund - monitoring the cash flow of the fund - fund asset storage operations • The depositary keeps accounts for the fund's assets and separates each individual fund from the assets of other funds, the assets of the depository and other clients of the depository and the management company, controls that the fund's assets are invested with regulatory provisions and acts, informs the Regulator on determination of fund asset and unit prices, executes the orders of the management company in connection with transactions with the fund's assets, reports on corporate actions, provides voting services at the company's general meetings, receives payments of revenues and rights due to the fund, ensures that the fund's revenues are used in accordance with regulatory provisions; acts of the company, reports to the Regulator any significant violation of legal elements and elements of the acts of companies.
Moj broker - Web Trader	• Moj broker – Web Trader service enables trading in securities and monitoring the status of the portfolio via the Internet, regardless of the working hours of the Bank's broker • Options: - placing orders for the purchase and / or sale of financial instruments on the ZSE - cancellation or change of order - checking the status of own portfolio - insight into the balance and turnover of brokerage account - overview of stock prices on the ZSE with the 50 best offers in real time - security of data exchange
Short-term HRK loans for Buying Financial Instruments (Margin Loans)	• Short-term HRK loan for the purchase of financial instruments for retail and corporate clients, with the purpose of purchasing financial instruments that are included in the List of financial instruments for margin loans, and in accordance with the daily investment limits for each financial instrument • Loan repayment period up to 12 months • The loan is approved in the amount of up to 100% of the value of pledged financial instruments, minimum HRK 50 thousand, and maximum HRK 2 million.
Spot FX Buy/ Sell	• Product users: Domestic and foreign retail and corporate clients and financial institutions • Product purpose: - Purchase of foreign currencies for payment abroad or deposit on a foreign currency account - Sale of foreign currencies based on inflows from abroad - Foreign currency conversion
Forward FX Buy/ Sell	• Product users: Domestic and foreign retail and corporate clients and financial institutions • Product purpose: - Purchase and sale of foreign currencies at a pre-agreed exchange rate on the currency date higher than two business days from the date of agreement - Purchase of foreign currencies for payment abroad or deposit on a foreign currency account - Sale of foreign currencies based on inflows from abroad - Foreign currency conversion

Products	Description
FX Swap	• Product users: Domestic and foreign corporate clients and financial institutions • Product purpose: - Agreement on the simultaneous purchase and sale of foreign currency at pre-agreed exchange rates. It consists of one spot and one forward transaction of opposite sign. - A SWAP contract is a replacement of two currencies to maturity when they are exchanged again
Cash trading	• Purpose: trading in cash is managed in cash in the position of the Bank, therefore it is to maintain the stock of effective foreign and domestic money at the optimal level
Given deposits	• Product users: Banks • Purpose: short-term financing • Deadlines: Contracts on a given deposit are usually agreed for terms of up to one year, but it is possible to agree on longer terms • Deposit management: Funds are available on the value date until the due date of the contracted deposit
Received deposits	• Product users: Domestic and foreign Banks and financial institutions • Purpose: Realization of yield on free HRK/ foreign currency funds • Deadlines: Money market deposit agreements are negotiated for a fixed term, usually up to one year • Deposit management: It is not possible to use the funds during the term of the deposit; Termination is possible with financial institutions with which there is an agreement on early termination
Repo/ Reverse repo	• Product users: Domestic corporate clients and financial institutions • Purpose: - A contract in which one party transfers some form of financial asset (security) to the other in exchange for cash. At the same time, it is agreed that a reverse transaction will be made on a fixed date in the future. - The contract is implemented through two transactions: one purchase and one sale of the security at a pre-agreed price - Represents a loan of a security to one contracting party and cash to another - The repo agreement is structured so that all benefits as well as the associated risks of holding the security remain with the original owner - A reverse repo agreement represents two opposite transactions from those in a repo agreement • Deadlines: Repo agreements are agreed mainly as money market deposits for up to one year, but it is possible to agree on longer terms.
Securities trading (bonds, treasury bills, CNB bills, commercial bills, shares)	• Product users: Domestic corporate clients and financial institutions • Purpose: Investment of free cash by purchasing debt securities with fixed yields issued by the state, local governments, cities or companies • Deadlines: - Short-term debt securities are issued for periods of up to one year - Long-term debt securities are issued for maturities longer than one year

Internal control system and control functions

Risk management

HPB manages risks through a risk management system consisting of a set of procedures and methods established to identify, measure, monitor, manage and manage the risks to which HPB is or may be exposed. The purpose of setting up a risk control system is to manage the risks and minimize their unintended consequences, thereby ensuring the stability of HPB's business (including the fulfillment of all commitments). It is important to note that despite the established risk management system, HPB (and no other credit institution) is able to completely eliminate any of the risks to which it is exposed. The risk management system is regularly updated, including its qualitative and quantitative components, and has been established in accordance with the following principles in risk assumption and management:

- Defining acceptable levels of risk exposure based on internal individual risk exposure limits and regulatory requirements,
- Continued improvement of procedure for determining, measuring, evaluating and monitoring risks to which the Bank is exposed,
- Continued development of measuring and monitoring risk procedures and methods in line with development of control risk function and development of certain IT support.

By the nature of its business, HPB assumes various risks when it comes to contracting business with customers. When taking over (and managing risk), HPB has the following goals:

- Ensuring stable and secure growth through an effective risk management system,
- Improvement of risk profile,
- Ensure the implementation of a comprehensive management system based on the application of harmonized procedures and procedures at the Bank level.

Considering the size and complexity of its activities HPB defined substantial risks which are monitored through the risk management system

- Credit Risk,
- Market Risk,
- Liquidity Risk,
- Interest Risk in the Bank's book
- Operational Risk.

Credit Risk

Credit risk is the risk of loss due to a borrower's default on a credit institution. This risk is assumed by HPB as part of its regular business activities and is also the most significant risk for HPB (and for all credit institutions).

Accordingly, the greatest attention was given to credit risk management through the prescribed policies, procedures and other internal acts of the Bank.

The objective of credit risk management is to ensure a quality credit portfolio, earnings and growth in placements while maximizing the rate of return with an acceptable level of risk-earnings ratio and their relationship to the price of the source of funds.

Credit risk management is organized through:

- The Management Board,
- Authorized committees (Credit Committee) and persons,
- Operating and organizational separation between front and back office activities,
- Credit risk management Department,
- Strategic risk management and risk control Department,

For the purposes of credit risk control and management, different risk parameters are monitored (e.g. debtors' creditworthiness, regularity in settlement of HPB liabilities, quality of collateral, regulatory and internal capital adequacy, portfolio quality) and different estimates are made (e.g. credit risk assessment placements prior to approval, estimation of recoverability of placements).

Credit risk is also related to concentration risk and currency induced credit risk which HPB manages in the same way as it manages credit risk.

Market Risk

Market risks include position risk, FX and commodity risk.

- Position risk assumes loss due to price change of financial instruments or financial derivatives
- FX risk assumes loss due to change in exchange rate and/or price of gold
- Commodity risk assumes loss due to price change of commodities.

Market risk management is organized through:

- The Management Board,
- Operating and organizational separation of front and back office trading activities,
- Assets and Liabilities Office,
- Strategic risk management and risk control Department.

The tendency to assume market risks is determined by the established market risk exposure limits. In order to manage market risks, appropriate limits have been established at the portfolio, sub-portfolio and instrument levels with respect to (depending on the nature of the financial instrument) certain market risk exposure measures. Also, stop-loss limits for individual equity securities classified as trading assets have been established.

In measuring and valuing market risk exposure the Bank uses a methodology based on value at risk (VaR) method, duration and PV01 (internal model).

Liquidity risk

Liquidity risk is the risk of loss arising from the credit institution's existing or expected inability to meet its financial obligations as they fall due. Liquidity risk is closely related to the following two risks and the Bank considers them as a whole in terms of risk management:

- Funding liquidity risk is the risk that a credit institution will not be able to successfully meet expected and unexpected current and future cash needs and collateral needs without affecting its regular day-to-day operations or its own operations. financial result.
- Market liquidity risk is the risk arising from the inability of a credit institution to simply offset or eliminate those positions at market price, due to market disturbance or insufficient market depth.

Liquidity risk management in HPB is organized through:

- The Management Board,
- Assets and Liabilities office,
- Assets and Liabilities management committee (Liquidity Subcommittee),
- Strategic risk management and risk control department,
- Financial markets department.

The methodology for measuring or estimating liquidity risk exposure is based on the calculation of the liquidity coverage ratio (LCR), the calculation of structural liquidity exposure indicators including monitoring and reporting on net stable sources of financing (NSFR) and additional monitoring parameters for liquidity reporting (ALMM).

The propensity to assume liquidity risk is determined by the established limits of liquidity risk exposure. In order to manage liquidity risk, appropriate limits have been established in relation to the liquidity ratio and limits for structural liquidity indicators. Also, the limits set by the Decision on reserve requirements and the Decision on the minimum required foreign currency claims of the CNB have been established.

Interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates that affect the items in the book of non-trading positions.

Managing interest risk in the Bank's book is organized through

- The Management Board,
- The Assets and Liabilities Committee,
- Strategic risk management and risk control department,
- Assets and Liabilities office.

The tendency to assume interest rate risk in a bank ledger is determined by the established limits on interest rate risk exposure in the bank ledger.

In order to manage the interest rate risk in the bank's book, appropriate limits have been established in relation to the ratio of the change in the economic value of the bank's book and regulatory capital and in relation to the change (decrease) in net interest income.

Operational risk

Operational risk is risk of loss stemming from inadequate or unsuccessful internal processes, people or systems or external events, including legal risks.

Operational risk management is organized through:

- The Management Board,
- Structure of operational risk management (Operational risk manager, Support persons for operational risk management, Connection persons),
- Operational Risk Management Committee,
- Corporate Security office,
- Compliance office,
- Strategic risk management and risk control department.

Methodology of measuring, i.e. estimating operational risk exposure is based on collecting and analyzing data on events due to operational risk, self-assessment of risk and controls, estimated IT risk, results of analysis of business effects taking into count implemented going concern plan and estimation of externalized risks. Also, the Bank estimates effect of introducing new products to its risk profile.

The Bank primarily uses measures for mitigating operational risk through internal control system and risk transfer measures (hedge) in cases where applicable. Also, there is going concern management system.

The Bank launched a project on the transition to the EU's single currency ie euro, in a timely manner, and have begun intensive activities that need to be carried out for the purpose of adjustment, for which significant financial and human resources are expected.

Other risks

Other risks, although present in HPB's business, are less significant than previously described and the methodology and method of managing them are less complex than for the significant risks (described above).

Concentration risk is the risk arising from each individual, direct or indirect, exposure to a single person, group of related persons or central counterparty or group of exposures connected by common risk factors, such as the same economic sector or geographic area, equivalent business or products, i.e. using techniques to for lowering credit risk, including risks related to indirect credit exposure to same collateral provider which can lead to losses that could jeopardize credit institution's going concern or make material change to its risk profile.

Collateral Value Risk assumes inconvenient market movements of assets used as collateral which will be a collateral trigger and cashed in for receivables collection.

Government Risk assumes government bodies or the central bank will not be able to meet its obligations toward other countries or foreign lenders and that other debtor of the country will not be able to meet their obligation to foreign lenders.

Strategic Risk assumes loss due to wrong business decisions, inflexibility to economic changes etc.

Management Risk assumes loss due to credit institution having limited capacity in forming sophisticated management system, mechanism and controls.

Credit Value Adjustment Risk (CVA) assumes portfolio value adjustment at mid-market value (this risk is related to all OTC derivatives for all business activities except credit derivatives recognized for reduction of credit risk weighted exposure). Credit value adjustment reflects current market value of counterparty credit risk for the institution but does not reflect current market value credit risk for the counterparty. The Bank regularly reports on credit value adjustment risk, which is not significant considering the scope of the Bank's operations.

Compliance risk assumes potential measures and penalties and the risk of significant financial loss or reputation loss which the credit institution may suffer due to non-compliance with regulations, standards and codes and internal laws.

Business risk assumes negative, unexpected change in the volume of business and / or profit margins that can lead to significant losses and thus decrease the credit institution's market value. First of all, business risk can be caused by a significant deterioration of the market environment and changes in competition or consumer behavior.

Legal risk assumes legal procedures against the Bank due to unfulfilled contractual obligations, legal proceedings against a credit institution and business decision which are not applicable or have a negative effect on the Bank's business and financial position.

Regulatory Risk assumes regulation change which can affect the Bank's business and profitability.

Internal Audit

The management and all employees are responsible for the implementation and application of the elements of internal control systems. The elements of internal control systems are described in the internal regulations and implementing documents of business areas with particular emphasis on preventive control activities and early detection of weaknesses and disadvantages.

Internal Audit provides an independent assessment of the adequacy and effectiveness of internal controls of each audited area.

Internal controls are a set of processes and procedures established for adequate risk control, monitoring of business efficiency, reliability of financial and other information and compliance with internal and external regulations. They represent a reasonable guarantee that the business objectives will be achieved in the prescribed manner, within the set deadlines with the application of applicable regulations. Internal controls are an integral part of the management processes of the management and all employees of the Bank. The basic principles of the internal control system are reflected through:

- clear lines of responsibility,
- delimitation of powers and responsibilities,
- specific control procedures and
- Internal audit function.

Internal audit

Internal audit is organized as an independent and autonomous organizational part whose work is based on the professional principles of internal auditing and related legislation. The management and responsibility of the internal audit function is determined by the principle of dual responsibility, whereby it is administratively accountable to the Management Board, and functionally to the Supervisory Board, i.e. the Audit Committee.

The Internal Audit office is organized by areas and specialized teams and skills are encouraged for each area. Therefore, there are teams for: Information system, Financial markets, Risk management, Retail and general audit.

The Charter of Internal Audit determines the independence and organizational autonomy of the internal audit function.

Access to data, information, persons and spaces is direct and unrestricted. In accordance with the general standards of internal audit and legal regulations, the internal audit procedures are carried out through four phases: planning, conducting tests, reporting and monitoring the results.

Planning is based on a documented risk assessment, and the Annual Working Plan is adopted by the Management Board with the prior consent of the Audit Committee and the Supervisory Board.

Internal audit covers all business areas of the Bank and is structurally divided into audits of retail banking, risk management, general audit, information system audit and audit of financial markets.

Reporting on the results of the audited areas is submitted to the responsible person of the audited entity, the competent member of the Management Board of the audited area, the Management Board and the Audit Committee. Each individual report is submitted to the Management Board meeting, thus ensuring that the Management Board has taken note of the audit results, proposed recommendations and measures and deadlines for fulfilling the recommendations and measures. Individual internal audit reports are submitted to the Audit Committee at board meetings. The same is done through the Office of the Administration as part of the regular submission of documentation.

Internal Audit prepares the Report on the work on a semi-annual and quarterly basis and submits it to the Management Board, the Audit and Supervisory Boards, while the quarterly work reports are submitted to the Management Board and the Audit Committee.

The work report contains information on the implementation of the annual work plan, a list of planned and extraordinary tasks performed, a list of planned tasks not performed with reasons for non-implementation of the plan, a summary of the most significant facts identified during audits, the effectiveness of the risk management system and a report on the implementation of proposals, recommendations and measures resulting from the performed audits with the reasons for their non-implementation.

Compliance monitoring function

The compliance monitoring function is organized within the Compliance Department in Compliance and data protection Division, compliance office.

The Executive Director of the Compliance Department, as the holder of the Compliance Monitoring Function, is the person responsible for the work of the control function of monitoring compliance, and in addition to the duties and responsibilities prescribed by the Bank's internal acts, in particular

- is responsible for coordinating compliance risk management;
- is obliged to identify and assess the risk of compliance once a year;
- is responsible for the annual work plan, operational plans and work methodology, and the budget of the Compliance Department;
- is obliged to submit a report on the work of the Management Board, the Risk Committee and the Supervisory Board of the Bank at least semi-annually;
- is obliged to issue a general assessment of the Bank's compliance with the regulations governing the provision of investment services and the performance of investment activities once a year;
- is obliged to submit at least an annual report on the work related to the provision of investment services and the performance of investment activities to the Management Board, the Risk Committee and the Supervisory Board.

The Executive Director of the Compliance Department, the Director of the Compliance and Data Protection Division and the employees of the Compliance Department, who perform compliance monitoring activities (hereinafter: the Compliance Monitoring Function) act independently of business areas, processes and activities where compliance risk arises and do not perform tasks in which they could come into conflict of interest. Furthermore, they are authorized to request and obtain access to all information, data and documentation necessary for the performance of tasks within their competence, and other organizational units of the Bank are obliged to cooperate in providing the requested information.

The tasks, scope and manner of work, i.e. work methodology and reporting system of the Compliance Monitoring Function to the Management Board and the Supervisory Board of the Bank are regulated by the following internal acts:

1. Business Compliance Policy;
2. Rulebook on business coordination;
3. Business Compliance Methodology.

Compliance monitoring functions include at least:

1. determining and assessing the compliance risk to which the Bank is or may be exposed,
2. advising the management and other responsible persons on the manner of application of relevant laws, standards and rules, including information on current events in these areas,
3. assessment of the effects that changes in the relevant regulations will have on the credit institution's operations,
4. verification of compliance of new products or new procedures with relevant laws and regulations as well as with amendments to regulations, in cooperation with the risk control function,
5. supervision and verification of the handling of inside information in terms of capital market regulations and keeps prescribed records and registers,
6. monitoring and control of recording telephone conversations and electronic communication related to the provision of investment services and the performance of investment activities,
7. management of the system of resolving clients' complaints regarding the provision of investment services and the performance of investment activities,
8. compliance monitoring activities related to investment product management,
9. monitoring and control of qualifications and personnel conditions of employees who provide investment services and perform investment activities
10. provide a general assessment of the Bank's compliance with the regulations governing the provision of investment services and the performance of investment activities,
11. reporting to the Management Board, the Supervisory Board and the Risk Committee on compliance risk and other control functions if the assessment determines the Bank's exposure to high compliance risk,

12. cooperation and exchange of information with the Strategic Risk and Risk Control Sector related to compliance risk and risk management,
13. consulting activities in the part of preparation of educational programs related to compliance,
14. supervision and verification of compliance of operations with relevant regulations and reporting on performed supervision,
15. monitoring and controlling the compliance of the Bank's employees with legal and other regulations as well as with high ethical and professional standards established in the Bank's Code of Ethics and reporting to the Management Board on the performed controls,
16. supervision of the Bank's operational compliance with the provisions of Articles 80 and 81 of the Capital Market Act and the Ordinance on organizational requirements and rules of business conduct for investment services and activities and remuneration policies and criteria for significant investment companies related to client property protection.

The compliance function continuously cooperates with managers and employees of the Bank's organizational units, especially in the part related to consulting on the application of relevant regulations to individual obligations and responsibilities in the business domain, and participates in compliance and implementation activities with regulatory requirements. recognized compliance risk and managed it adequately. In doing so, it is necessary to ensure that the cooperation of the compliance monitoring function with other organizational units does not in any way jeopardize its objectivity and independence.

At the beginning of the business year, and no later than 31 January each year, the Executive Director of the Compliance department submits to the Management Board, Risk Committee and Supervisory Board the annual work plan of the compliance monitoring function, which is adopted by the Bank's Management Board.

Furthermore, the Executive Director of the Compliance department annually, as part of the annual work report, identifies and assesses compliance risk in accordance with the categories of compliance priorities set out in the Compliance policy and assesses the Bank's compliance with relevant regulations.

The annual report shall be submitted to the CNB by 31 March of the current year for the previous year. The compliance monitoring function also cooperates with the other two control functions - the Internal Audit office and the Strategic Risk and Risk Control department - especially in the part related to monitoring the implementation of the recommendations of supervisory and regulatory bodies. Cooperation is aimed at the goal of all three control functions to jointly establish an effective system of internal controls in all areas of business, while avoiding overlap and conflict of jurisdiction.

The Executive Director of the Compliance department, also once a year, as part of the annual report on the provision of investment services and investment activities, provides a general assessment of the Bank's compliance with obligations under the Capital Market Act, Regulation (EU) no. 569/2014, Regulation (EU) no. 600/2014 and regulations issued by CFSSA based on them.

Annual Report The compliance monitoring functions related to the provision of investment services and the performance of investment activities shall be submitted to the Croatian Financial Services Supervisory Agency by 31 March of the current year for the previous year.

Once a year, when reviewing the annual report on the work of the Compliance Monitoring Function, the Bank's Management Board reviews the adequacy of the procedures and the effectiveness of the Compliance Monitoring Function. Supervision of work Compliance monitoring functions are performed by the Internal Audit Office as part of continuous and comprehensive supervision of the Bank's operations.

Development plan of Hrvatska poštanska banka

The summary and basic framework of the strategy, presented in this document, is largely based on the currently valid document Business Strategy of Hrvatska poštanska banka, p.l.c. 2019-2023, which was approved by the Supervisory Board in accordance with Article 48 of the Credit Institutions Act on December 24, 2019. In the last quarter of 2021, the Bank started the process of updating the Business Strategy document, the completion of which was delayed due to new circumstances in the previous period, but the most important changes are included in the presentation below. The guidelines and business goals set out in the Strategy have been largely achieved and form a permanent part of the Bank's strategic management.

The realization of the business model based on the strategic pillars of development presented below achieves the preconditions for doing business in accordance with the vision and mission of the Bank.

Mission

We create conditions for a better life in Croatia.

Vision

BA Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.

Banks, like any other corporate client, can no longer ignore climate change and the responsibility they have to achieve sustainable development and ecosystem conservation. Accordingly, as well as due to regulatory needs, the Bank will focus on the development of sustainable business in the coming period, which is an umbrella that includes activities in the areas of environmental sustainability, corporate governance, credit policy, community relations, employee development, etc. development is fully complementary to others, and will be the basis for HPB's strategic documents in the coming medium term.

Sustainable business

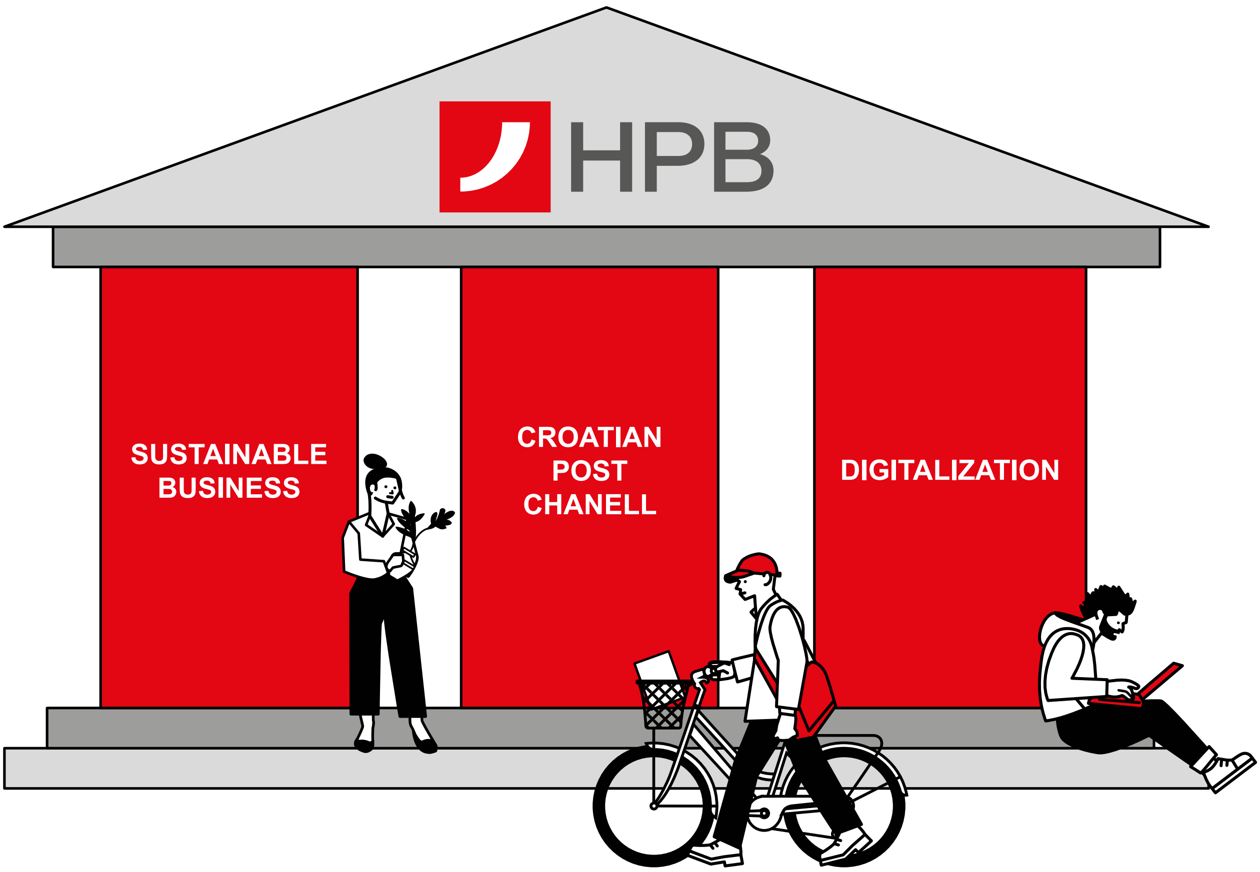
The huge challenge of global warming and climate change poses a responsibility to all actors who can make a difference to contribute to change. Accordingly, the Bank recognized the need for stronger inclusion of ESG risk in risk management and capital management. The measures that will be implemented in the next period will be based on supporting clients with technologically advanced and sustainable business, who rely less on carbon and use energy from renewable sources. In addition, the Bank will prefer clients who operate on an ethical basis and use an operating model based on good and stable corporate governance.

Croatian Post Channel

The Croatian Post network as a contracted externalized network is the distinguishing potential of the Bank which enables it full territorial coverage on the entire territory of the Republic of Croatia. Contractual, IT and ownership connections are the basis of the largest branch network in Croatia, which is used to contract the sale of part of the financial products from the HPB range. The expansion of HPB's services in the HP network will contribute to the results of both strategic partners and benefit customers.

Digitalization is the Bank's focus on monitoring trends in banking and non-banking competition on the one hand, and timely recognition of increasingly refined customer needs on the other. Digitization for credit institutions is no longer an advantage but a prerequisite for survival, and will be implemented from two aspects: (i) the customer aspect, which refers to the functionality of products and services, and (ii) the internal aspect, which refers to automation and process efficiency.

Strategic development pillars



Corporate and public sector operations

The strategic focus of the Large Corporate and Public Sector department ("Sector") continues to be the intensive expansion of business cooperation with existing clients and the acquisition of new ones, based on best banking practice. In doing so, special attention will be paid to the balance between the commercial opportunities provided by the markets and the Bank's need to follow its conservative approach when it comes to risk management.

The further development of the Sector's business is based on increasing the base of active large clients in private domestic and foreign ownership through the provision of credit lines for investments and working capital, documentary business in the country and abroad and a wide range of payment services.

The sector invests great efforts in the development of sophisticated financial monitoring services for "greenfield" investments in the segment of energy, water and communal services, housing and tourism, guided by the principle of supporting the highest quality projects that are adequately capitalized and can be assessed with a high degree of reliability. adequacy of future cash flows from project operations.

In addition, special care is taken to approach clients in accordance with their affiliation with industries, which leads to additional specialization aimed at increasing the quality of the overall business relationship with clients. In doing so, the maximum of branch exposures to credit risk should be considered, all in accordance with the macroeconomic indicators of the respective branches of activity.

The target acquisition groups of clients are all creditworthy clients who have an open account and a stable business relationship with other banks - large systems, state and local government bodies. The aforementioned Bank's approach to customer segmentation will provide the opportunity to offer the highest quality solutions to new customers while maintaining a much-needed level of security in the area of risk management.

The aim of this approach is to apply such a specialist model of sales and business relationship management that will respond to the needs and expectations of customers in the best possible way.

Using various acquisition tools - customer bases, pre-selection, sales promotions, etc. - will allow access to new customers and expand relationships with existing ones. In this sense, the Bank's plan is to fully harmonize the quality of the credit process, the level of authorization in approval of individual products and customer segments, and the offer of product solutions with a high level of flexibility. Automation and digitalization are trends that the Bank has already adopted in order to keep pace with global trends and create a modern sales infrastructure. Development processes are underway and the introduction of a number of automated services based on mobile technologies is expected in the coming period. In this way, the Bank ensures faster and simpler business operations for entrepreneurs with quality long-term business relationship management.

One of the Sector's main focus will continue to be on expanding business cooperation and lending to those clients and industries that largely contribute to increasing the GDP of the Croatian economy - manufacturing, exporters, manufacturing and energy production. In doing so, as an imperative of quality risk management, an individual approach is imposed on each client in assessing its overall financial quality, the potential of the industry in which it operates and the potential of the specific business transaction in which it enters.

From the very beginning of the crisis caused by the COVID-19 pandemic, the Bank has been continuously introducing assistance measures in order to facilitate the financial operations of entrepreneurs and enable the fastest growth of their business activities. The implementation of assistance measures will continue in the coming period, including new measures to mitigate the consequences caused by the earthquake for businesses.

In order to achieve the best possible position on the market, provide the best service to customers and optimize revenue, the Sector will strengthen cooperation with Croatian Post d.d. as a strategic partner, especially in the part of increasing the number of clients from the sphere of Local Government and Self-Government Units and affiliated companies. Significant distribution potential of Croatian Post it provides the Bank with a great opportunity to increase the number of clients, which is already evident from the pilot project that has been running since August 2020 and increase the sales volume of its products and services, in 2021, primarily in the area of payment transactions and card products, which trend we expect in the coming period, which will affect the increase in non-interest income.

The Bank will continue to develop its business relationship with FINA as one of the most dominant partners in terms of total payment transactions and revenue generated by this business line. Activities related to the improvement of business in the area of cash management are being prepared in cooperation with large clients who have the need to deposit it at their locations. Special attention will be paid to further improving the counter operations of the Bank's clients through FINA through joint projects that should enable clients to more easily dispose of their funds after payments are made at FINA locations.

In the deposit business, the emphasis will be on expanding transaction business with large companies and corporations, but also on continuing good cooperation with state and public companies, local self-government units and companies owned by them. In doing so, emphasis will continue to be placed on the optimal ratio of interest expense and the Bank's need for liquidity to be placed on clients' markets. In this context, interest rates on deposits are continuously decreasing without detrimental consequences for the total deposit sphere of the Sector and the Bank. In the area of business with the economy, the Bank is recognized as a partner by clients who place their trust in it through the continuous inflow of new time and a-vista deposits.

The ambition of the Sector and the Bank in the area of business with the economy is to be a reliable partner to clients who will positively influence their business with their expertise while achieving continuous growth of their profitability and a high degree of protection and security of their portfolios. These will be the main guidelines in business in the forthcoming period, which ensures the establishment of Hrvatska poštanska banka as one of the leading credit institutions on the market.

Small and Medium Enterprises operations

SME department is focused on efficiency and productivity, deepening the strategic partnership with the Croatian Post, digitalization, employee training and synergy with all organizational parts of the Bank, all in order to increase the quality of service and support entrepreneurs who can contribute to faster business development and employment growth.

In the coming period, we expect to additionally strengthen the credit activity of entrepreneurs, which we are ready to support through specialized lending programs through cooperation with cities, counties, ministries and CBRD, HAMAG BICRO, EIB and other partners that will be aimed at supporting entrepreneurs in their business. ventures.

The SME business sector will continue to actively contribute to the balanced development of all regions of Croatia through placement growth and regional expansion. In addition, in order to strengthen the portfolio, we will continuously work on diversifying the Bank's portfolio and increasing the share of micro and small and medium-sized enterprises in it.

Focusing to achieve the best possible position on the market, provide the best service to customers and optimize revenues, the SME Business Sector will use the opportunity to further develop cooperation with Croatian Post as a strategic partner primarily in the area of payment operations and product contracting using the distribution channel of Croatian Post.

Hrvatska poštanska banka is also actively working on optimizing business processes and introducing digital technological solutions. Technological solutions are integrated into the Bank's products and generate added value for customers to whom the Bank provides faster and simpler operations.

With the new business model for small and medium-sized enterprises, we want to achieve business and operational excellence in order to provide the fastest, most efficient and competitive service and contribute to the development of Hrvatska poštanska banka into a leading bank for micro, small and medium enterprises.

Retail operations

Retail banking is a strategic segment of the Bank's business. In the coming period, we will continue development activities to improve existing and introduce new products and raise the quality of services in order to increase the number of working clients. We continue with acquisition offers and cooperation with selected employers and strategic partners, and especially with business cooperation in the part of offers of favorable housing loans with interest rate subsidies by the state and local self-government units. We are aware that only by constantly improving the level of service can we achieve the planned acquisitions and growth, so we conduct continuous training of employees and measuring the quality of service.

After the credit-scoring model of automated processing and approval of non-purpose loans was improved in 2021, in the further development the emphasis will be placed on the integration of card products into the subject models, further integration of credit-scoring models in the credit approval process and offer and placement products through digital channels. Also, the plan is to improve and digitize the entire credit process, in order not only to improve and accelerate the process of processing and approving credit applications, but also to more efficient monitoring over the life of the product.

Given that in 2022.g. marked by a series of preparatory activities related to the transition to the EURO currency in the Croatian monetary system, the focus of development activities in the coming year will be to ensure all functional prerequisites for successful credit and transaction operations in the conversion of products and services to the EURO currency.

Taking into account the protection of the environment, but also in light of the new circumstances resulting from the COVID 19 pandemic, which made it difficult and limited for citizens to move, the Bank launched a project in early 2022 to digitalize customer information channels. The aim of the project is to ensure customer information and availability of reports for customers through digital channels, which significantly raises the quality of service but also contributes to environmental protectio.

Financial market operations

Providing liquidity and managing portfolios in order to support the stable operations of the Bank and its clients is the most important part of financial market activities. We expect still high liquidity in the domestic market, and the growth of yields on debt securities in line with the growth of yields on foreign markets and the likely increase in reference interest rates.

In the domestic money market, we expect a high level of liquidity through 2022, with low interest rates and more intensive trading in a period of seasonally stronger demand for local currency (HRK).

After the recovery in 2021, we expect continued growth in GDP in a slightly smaller amount than in the previous year and the continuation of increased inflows from tourism and inflows of EU funds. Given the likely entry of the Republic of Croatia into the euro area and the replacement of the Croatian kuna by the euro with 1.1.2023, we expect further lower volatility of the EURHRK exchange rate and further narrowing of spreads. A large part of the activities will be focused on adjusting the business in order to successfully switch to EUR.

Notwithstanding the completion of the ECB's PEPP bond repurchase program in March, high liquidity in the euro area will continue to provide relatively favorable sources of funding. We expect short-term rates in negative territory to continue, and a special challenge will be to maintain an adequate level of liquidity while reducing the bank's costs on foreign currency funds with foreign banks and on the CNB account.

Planned yield growth should be more pronounced in the first half of the year, while growth in the rest of the year should be limited given the expected introduction of the EUR, GDP growth and a possible increase in investment rating.

In the capital market, we expect GDP growth and economic recovery to be reflected in the good results of companies and higher trading volumes on the ZSE. In the investment banking segment, activities will be focused on expanding client's network and revenue growth based on fees from investment services and custody.

Non-financial report for 2021

Non-financial report for 2021

Accepting responsibility and role in creating conditions for a better life in Croatia in accordance with its mission, legal provisions and regulatory guidelines for non-financial reporting, Hrvatska poštanska banka as part of the Annual Financial Report informs the public about its activities in the segment of socially responsible and sustainable business.

Sustainable development is a strategic determinant and one of the priorities in the operations of Hrvatska poštanska banka, which is aware of the role of the financial sector in achieving the goals that lead to carbon neutrality. In line with the environmental (E), social (S) and governance (G) goals of sustainable development, HPB's actions and activities seek to address global climate and social challenges and ensure a better future for generations to come. In accordance with its strategic guidelines and respecting the recommendations of the European Central Bank issued through the Climate and Environmental Risks Guide, in 2021 a special organizational unit of the **Sustainability office** was established at HPB, which enables further progress in implementing sustainability goals and ensuring comprehensive application of ESG regulations.

As a long-standing signatory to the UN Global Compact, HPB has been regularly reporting on its activities and plans in the areas of human rights, working conditions, environmental protection and the fight against corruption since 2007, and prepares and publishes a *Progress Report*.

The Bank also regularly publishes the annual *Corporate Governance Code*, established by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange (ZSE) with the aim of promoting effective governance and accountability for companies listed on the Zagreb Stock Exchange. With the Code, the Bank publishes data related to general corporate governance rules (G), but also information related to the company's strategy, taking into account the potential impact of activities on the environment and community (E), encouraging ethical behavior, respect for human rights and appropriate and stimulating work environment (S). In December 2021, the Bank was awarded the prize for the best corporate governance and compliance with the Corporate Governance Code.

Through its activities aimed at the well-being of customers, the community in which it operates, employees and shareholders, HPB supports and encourages the development of various segments of society, taking into account regional and local needs and characteristics of society. Through the segments of environmental, social and managerial responsibility, the Bank improves its business practices and social role every year, contributing to the creation of preconditions for sustainable development. He is an active participant in socially responsible projects important for social progress and better living conditions, encourages sustainable entrepreneurial ideas, cares about a healthy environment, the environment of its employees, human and children's rights and the community and society in which it operates. It implements the principles of transparency, security and trust in all segments of its activities.

The following is an overview of key stakeholders, material issues and the impact of the Bank's operations in the context of the **17 United Nations Sustainable Development Goals** (SDGs). Although it supports all 17 global goals, HPB recognizes its greatest influence in the following segments:

1. Good health and well-being (SDG 3)
2. Quality education (SDG 4)
3. Gender equality (SDG 5)
4. Decent work and economic growth (SDG 8)
5. Reduced inequalities (SDG 10)
6. Climate action (SDG 13)

The identified key impacts of HPB are classified by identified stakeholders, ie stakeholders: clients, employees, shareholders, suppliers, society and the environment.

CLIENT’S WELL-BEING

1) Transparency and trust

Every client and his financial needs and decisions are unique and important to us. We adapt our approach to the specific needs of different groups of clients, and we are direct and helpful, professional, efficient and transparent in all forms of communication. Our responsibility in business is a fundamental determinant of the Bank, which we express through the creation of our offer of products and services in accordance with the real needs and important life situations of our clients.

We provide clear and unambiguous information about the products we offer, and we write contract terms in clear and understandable language, avoiding misunderstandings and ambiguities. We inform our clients about the news from the Bank's operations through our own channels, respecting security and their right to privacy.

2) Quality of service and availability

We are continuously improving our products and services, with increasingly represented technological innovations that enable greater accessibility to customers. The primary focus of our activities is on developing products that meet the financial needs and capabilities of different categories of clients. Because we value the time our clients have, we develop products and services that are simple and affordable.

With the development of digital banking, we are continuously increasing our availability to customers. Thanks to the strategic cooperation with the Croatian Post and the project **Bank at the Post Office**, HPB is today the most accessible Bank in Croatia. We offer our clients products and services in 12 regional centers for population and economy, which include 57 branches for individuals and 16 business centers. In 1,016 post offices, payment operations and transaction operations are available to natural and legal persons, while credit operations are also available to citizens in 140 post offices with a financial corner.

3) Equality and respect for diversity

When designing products, offering and providing services, we do not discriminate against clients based on nationality, religion, gender, gender, race, political beliefs, union membership, etc. and strive to encourage financial availability and financial involvement of all social structures in local communities.

In our business premises and offices where we are in direct contact with clients, we do everything we can to remove architectural barriers to access for people with disabilities. We approach the elderly population, pregnant women, parents with small children with special sensitivity, and we demand the adoption and observance of these standards from our contractual partners who participate in any way in providing services to our clients.

We support the development of new entrepreneurial ideas and new technologies, especially those that are important for the local economy. We are open to cooperation with newly established companies and start-up companies and we have an understanding for their specific needs. We treat new clients the same as we treat long-term clients.

We provide support to business entities in their intention to expand their business and competitiveness, especially if they are export-oriented, and we do not discriminate against them on any grounds.

4) Personal data protection

All information available to the Bank, regardless of whether the Bank has received it from a client or is the result of business, cooperation and service to clients, is confidential. Continuous attention is paid to security and protection, as well as to improving the IT aspect of security and raising security standards for the protection of all data available to the Bank. We take care of the protection of personal data of clients, contractual partners and employees and implement the Personal Data Protection Policy, which sets out the rules related to the protection of individuals with regard to the collection and processing of personal data. All detailed information on the processing of personal data of clients, employees, business partners and other persons whose data are processed is published publicly on the *Bank's website*.

The Bank has appointed a **Personal Data Protection Officer** who is independent and takes care of the protection of the rights of clients, employees and contractual partners with regard to their personal data. The Personal Data Protection Officer is also the primary point of contact for respondents who wish to exercise their rights, send an inquiry related to personal data protection, request additional information, express concern about the processing of their personal data, file a complaint regarding personal data protection and exercise their rights. related to data protection.

5) Resolving complaints

We respond to all customer complaints effectively and within the prescribed period. We correct mistakes as soon as possible. We have established adequate policies for resolving consumer and business complaints, as well as monitoring the process of managing consumer complaints and service quality management.

We continuously conduct measurements and research of customer satisfaction, and based on the results we improve and enhance the quality of service in certain business areas.

6) Avoidance of conflicts of interest and anti-corruption behavior

Aware of the fact that even potential conflicts of interest negatively affect the relationship of trust we build with clients, we have adopted effective procedures to avoid situations where personal interests of employees may conflict with the interests of clients, contractors or HPB Group. We avoid situations and transactions in which the employee represents the interests of the Bank, and at the same time such a transaction for him, directly or indirectly, represents any form of material benefit or convenience.

With regard to the provision of investment and ancillary services related to financial instruments, we implement the **Conflict of Interest Policy**, which introduces standards that we adhere to in order to identify and prevent or effectively manage conflicts of interest, all with the aim of eliminating possible harmful consequences , including potential conflicts of interest.

Employees are paid for their work and we do not accept inappropriate gifts, services or money from clients and contractual partners.

We continuously carry out activities related to promoting business integrity and transparency by improving corporate governance, harmonizing operations with laws, regulations and standards, continuous development of internal control systems and control functions and implementing the Anti-Corruption Program of the Government of the Republic of Croatia for majority state-owned companies.

ENCOURAGING ENVIRONMENT FOR EMPLOYEES

1) Gender diversity and the right to equality

Recognizing how useful diversity is, we are guided by this idea in employment and in the everyday relationship with employees and in managing them. All employees have equal opportunities for professional development, professional growth and development. In no case do we tolerate favoritism or discrimination of employees based on gender, gender, age, marital status and condition, nationality, race, religious and political beliefs, trade union membership, sexual orientation and identity, health, disability or physical impairment.

We promote a work environment in which employees are free to express their opinions and ask questions to senior management. We encourage the creation of a work environment in which employees feel safe to report any violations of internal acts, bylaws and regulations, as well as any form of unethical behavior of customers, employees and contractual partners or suppliers with whom the Bank cooperates.

2) Education and development of competencies

Continuous employee development is one of the key principles of HPB. HPB Group encourages its employees to develop their talents, innovation and creativity and to push the boundaries of their professional development. We believe in the power of lifelong learning, so we design and develop training programs and provide internal and external employee training. We encourage employees to improve their knowledge and skills, teamwork skills, togetherness and achieving common business goals. It is especially important for us to transfer knowledge and exchange experiences between employees, because in addition to spreading knowledge in this way, we connect employees around a common goal - to improve that knowledge. We value the trust that employees have in HPB as an employer and we appreciate their loyalty and loyalty.

In 2021, the development of more interactive content of trainings on the **e-Classroom** intensified, which was contributed by the better education of internal trainers and persons in charge of the implementation of internal trainings.

A unique **Data literacy** program called Data Nursery has been launched for about 80 employees. The goal of the program is to improve data / analytical competencies of employees, increase awareness of the importance of quality data management and guide HPB in the data-driven direction by creating a data center of excellence.

In 2021, we continued with a comprehensive induction program for new employees with the aim of faster orientation and integration of employees into the new work environment. The focus of the program is to clarify the employer's expectations in a short period of time through the identification of key development areas and to ensure two-way communication between employees and managers through continuous feedback.

3) Work life balance

We have recognized the balance between private and business life of employees as one of the important goals of sustainable development because it affects the satisfaction and commitment of employees and ultimately the creation of a healthy and comfortable working environment. We respect the private life of employees and do not abuse the technical possibilities and the related availability of employees. Therefore, employees performing managerial functions are expected to contact employees and team members outside of working hours only exceptionally and only if the needs of the job or project so require. The success of managerial functions is also assessed on the basis of acting in accordance with ethical principles towards employees and team members.

4) Care for health, safety and protection

Concern for the health, safety and protection of employees in the conditions of the pandemic in 2021 remains a priority. As a large number of employees continued to work from home, they were provided with new IT equipment for easier work, and a discount on the purchase of office desks and chairs was provided with part of the furniture stores.

Guidelines for working from home at the Bank level have been developed and communication from the top management level on the results and current events in the Bank has been strengthened.

Employees were given the opportunity to use psychological counseling services at the expense of the employer throughout the year. The purpose of such counseling is to strengthen employees to successfully cope with difficulties by adopting new procedures and ways of action that enable change, and thus raise the quality of life. Mental health care in terms of importance is on the same level as physical health care. Employees who recognized the need for counseling were supported in using counseling, taking responsibility, and caring for their own mental health.

All employees are insured with supplementary health insurance and supplementary health insurance and are encouraged to go to the annual systematic examination, and in 2021 the range of services that each employee can use has been further expanded. On the day of the systematic review, employees can use the paid day off, to which they are entitled in addition to annual leave. The same goes for the days when employees decide to go for voluntary blood donation.

Aware of the importance of a positive organizational climate and culture for the successful operation of our organization and employee engagement, but also the feedback on the work survey during the COVID-19 pandemic, we conducted a large study of organizational vitality in the HPB Group. With the aim of introducing focused management of organizational climate, culture and engagement as a regular process of the HPB Group. The research has achieved an extremely high response and the development of a plan for improvements by organizational units is underway, which will include all employees.

On the topic of physical activity, which has become increasingly important since we have been working from home, members of the **HPB Sport** Association have become especially active, intensifying their activities towards stronger communication and a more attractive sports program to encourage more employees to move and socializing.

SUPPORT TO SOCIETY AND COMMUNITIES

1) Financial literacy

Personal financial management is a real challenge nowadays, and as a responsible institution we provide financial service users with all the information and facts important for savings and investment planning, optimal borrowing and quality risk management. We regularly promote the importance of financial responsibility and literacy, and for many years we have been cooperating with schools, colleges and student associations in various financial literacy programs.

In order to raise awareness of the importance of good financial management of clients, especially the younger population, we launched in 2021 on our social networks a simple video series of financial education **HPB for financial literacy** on the basics of managing your own money.

2) Sponsorships and donations

Aware of its impact on the environment, as well as the fact that acting and doing business in society implies constant care and respect for it, HPB is always happy to help the community and society through donations and sponsorships. We support projects at the local and national level that encourage the creation of new values in order to promote knowledge, excellence and preserve the cultural heritage of our homeland. Special attention is paid to humanitarian associations and actions.

3) Dialogue with the community

Our goal is to help clients achieve financial sustainability and we believe that by working committed to this goal we have a positive impact on the local community in which we operate, but also on society as a whole. Through our work and presence, we strive to continuously contribute to the social and economic well-being of the communities in which we operate, while actively working to reduce the impact of our business on the environment.

Our business strategy is based on the idea of being accessible and accessible, and our funding programs seek to stimulate the local economy, support small and medium enterprises whose quality strategic and business decisions can have a positive impact on economic and social development and create a positive economic climate.

Our branches and regional centers continuously monitor the needs of local communities, while respecting the cultural and social differences of the communities in which we operate. It is extremely important for us to have good partnerships with the local community, to cooperate and promote initiatives that bring significant social value.

The Bank has demonstrated its continued commitment and work for the prosperity of the community through specially designed activities during 2021, marking the 30th anniversary of its operations. On this occasion, social initiatives were launched with the aim of achieving special benefits and / or lasting contribution to the community. We launched a corporate volunteering program **We volunteer for Croatia** in which HPB employees participated in environmental actions and support programs for better working and living conditions for those who need it during the process of education. We also conducted a large volunteer-environmental campaign **Plant with HPB** in which, in addition to the Bank, citizens joined in with their donations, and our volunteers together with Croatian Forest experts participated in planting 30,000 seedlings at seven locations throughout Croatia. In cities across Croatia, we have provided a series of mini-concerts of the famous Zagreb Soloists ensemble called **Feel the Harmony** in order to provide citizens with an opportunity to socialize and follow musical events in new circumstances during the pandemic and limited access to cultural events.

ENVIRONMENTAL SUSTAINABILITY

Environmental responsibility and sustainability are fundamental aspects of the operations of Hrvatska poštanska banka, and participation in projects that promote environmental sustainability are at the top of our business priorities. We respect and advocate for the promotion of national and international protocols and principles, practices and standards of environmental protection, as well as for the adoption of stricter environmental principles whenever their application is possible at the project level.

We give priority to projects that bring greater social and environmental value and avoid those financial or economic relationships that directly or indirectly harm human health and the environment.

1) Green Office

Our orientation towards environmental protection is reflected in the long-standing existence and promotion of the **Green Office**, which is a set of activities that increase the level of environmental awareness of Bank employees in order to reduce negative environmental impact and increase energy efficiency in everyday office operations.

Through the info-educational page on the Intranet - Green Panel, continuous education on current events, problems and interesting things from the world of ecology was continued, as well as advising employees on Green Office measures related to prudent paper consumption, optimal heat regulation in workplaces, rational water and lighting consumption. old paper and the like. One of the activities we used to increase the environmental awareness of our employees and encourage them to rationally consume energy and resources and reduce the negative impact on the environment was the initiative **My Green Decision**. The initiative was launched to mark Earth Day with the aim of raising awareness at the individual level of the importance of responsible waste management, in the workplace and beyond. The first activities of this initiative were aimed at reducing the consumption of plastics and the use of sustainable materials

In 2021, the first large ecological-volunteer campaign **Plant with HPB** was organized, in which HPB, in cooperation with Croatian Forests, collected donations from clients and citizens for afforestation, and for the collected money, including the Bank's donation, planted throughout Croatia.

2) Business digitalization

We continuously consider the impact of our business activities on the environment and climate change, and our projects and initiatives are aimed at the fastest and easiest transition to a society with significantly reduced CO_2 emissions. We actively participate in the implementation of sustainability not only within our own organization, but we strive to be an example and encourage our customers and the community to adapt to digital transformation. In the circumstances of the pandemic, when it is recommended to replace physical contact with digital technologies, HPB continues to strengthen its digital channels in order to enable customers to conduct as much financial business as possible online. The Bank is especially improving its mobile banking and virtual **eBusiness**, which relies on remote communication with customers, online contracting of the Bank's products and services, digital documentation and qualified digital signing of documents. This way of doing business increases the time availability of products and services to the Bank's clients, and at the same time has a significant positive impact on the environment. The use of eBusiness also reduces the impact of vehicles on the environment, and digital documents and signatures in communication with customers reduce the amount of paper used. It also reduces the need for office space, energy and resources needed for the Bank to function.

HPB was one of the first banks to introduce SEPA Instant payments in 2020, ie almost real-time payment transactions at any time, and in 2021 it enabled mobile banking users to set up payment orders even faster and easier by selecting indirect account identifiers such as mobile phone numbers. , email or OIB, instead of IBAN. The significant increase in activities through HPB's digital channels proves that the Bank's clients have also accepted remote banking, which is ultimately faster, simpler, safer and more affordable for them.

HPB continuously encourages its clients to choose the option of sending statements of account balances and changes, as well as statements on card spending via e-mail, which together contribute to reducing paper consumption.

3) Trend of decreasing energy and paper consumption

Business activities and processes, organization of sessions and meetings and conducting large-scale training in 2021 were carried out remotely, which caused a further positive impact on paper consumption and printing solutions and energy savings, as evidenced by measurement results. Due to these circumstances, energy consumption as well as the frequency of printing documentation at the annual level was record low.

4) Waste management

The Bank continued to dispose of waste paper responsibly through authorized waste disposal companies. For the Slavonian area from the end of 2020 for the locations of HPB in Osijek, Beli Manastir, Našice, Đakovo, Valpovo and Donji Miholjac, the removal of old paper has been contracted in cooperation with an authorized company. For the removal of collected old paper from the Bank's Zagreb locations, the services of an authorized company are still ordered, if necessary, while local companies are hired for branches from other locations of the Bank or employees independently dispose of the paper in designated containers.

All electronic waste (old computers, printers, fax machines) is still adequately disposed of by companies authorized to dispose of this type of waste.

5) Publication of indicators on the impact on environmental objectives

As an obligor of public announcement of a non-financial report pursuant to the Accounting Act, and in accordance with the Guidelines for the preparation and publication of ESG relevant information of the issuer issued by HANFA, the Bank will start reporting on its impact on the first two environmental objectives of the Taxonomy Regulation from 1 January 2022: 1) climate change mitigation and 2) climate change adaptation.

In line with its recommendations and commitments, HPB publishes three key climate impact indicators in 2021 compared to 2020:

- **Paper consumption**
  KPI: Reduce the total amount of paper consumption, ie printing by 10% compared to 2020.
  Result: Achievement 10.33%

- **Electricity consumption**
  KPI: Reduce total electricity consumption by 5% compared to 2020.
  Result: Achievement 6.6%

- **Water usage**
  KPI: Reduce total water consumption by 5% compared to 2020.
  Result: Achievement 7.9%

In the forthcoming period, the Bank will, in accordance with regulatory guidelines, develop methodologies and metrics for the development of key performance indicators for adaptation to climate change, as well as other environmental objectives prescribed by the Taxonomy Regulation.

RESPONSIBILITY TO SHAREHOLDERS

The Bank protects the interests of all its shareholders or potential investors, without discrimination or preferential treatment. Business books and documentation are accurate and complete and information of a financial nature is published and available to all shareholders at the same time and in the same way. The Bank's website publishes annual, semi-annual and quarterly financial reports, information to shareholders on the exercise of their rights such as participation in the General Meeting of Shareholders, basic acts of the company, press releases and presentation of business results and data on the Bank's shares.

We encourage the participation of all shareholders in the General Meeting of Shareholders in order to exercise their voting right and thus influence the adoption of decisions that are of the utmost importance for the Bank's operations.

In order to enable potential investors to be informed about the Bank's operations when making their investment decisions, to request and obtain relevant information in writing, the Bank has appointed a person in charge of investor relations.

We implement effective procedures and risk management systems, we have established control functions, the effectiveness of which we regularly review. We expect employees in managerial positions to adhere to the principles of corporate governance.

SUPPLIERS AND CONTRACT PARTNERS

The selection of service providers and suppliers who have adopted and are guided in their business by the principles of social and corporate responsibility and whose values coincide with the values to which HPB is committed is encouraged. We work with suppliers we trust who are aware of the fact that business connections with other business entities affect our reputation and public perception of us.

We do not cooperate with suppliers that may adversely affect the good reputation of the Bank. We select suppliers on the basis of clear and documented criteria, while respecting a clear and transparent procedure, avoiding any and even potential conflicts of interest. HPB does not cooperate with businesses owned and majority co-owned by employees and their family members.

We respect the agreed deadlines and pay for goods and services to suppliers and service providers in accordance with the contractual terms. We do not accept inappropriate gifts or money from suppliers and service providers.

Report on Application of the Corporate Governance Code

Application of the Corporate Governance Code

Pursuant to Article 272p of the Companies Act and Article 22 of the Accounting Act, the Management Board and the Supervisory Board declare that the Bank, as an issuer of shares listed on the regulated market of the Zagreb Stock Exchange, applies the Corporate Governance Code (Code) developed jointly by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. ZSE), and is publicly available on their website *www.zse.hr* and *www.hanfa.hr*.

The Bank operates in accordance with good corporate governance practice and the recommendations of the Code. Explanations can be found in the annual Questionnaire on compliance with the Code, approved by the Management Board and the Supervisory Board, which is published on the ZSE website (*www.zse.hr*), in the Official Register of Prescribed Information at HANFA (*www.hanfa.hr*) and the Bank's website (*www.hpb.hr*).

In December 2021, Hrvatska poštanska banka, a joint stock company, was declared the winner of the award for the best compliance with the Corporate Governance Code for 2020 on the Official Market of the Zagreb Stock Exchange d.d. HANFA awards this recognition to the best companies - issuers of securities listed on the regulated market in Croatia.

Also, the Bank applies the Code of Corporate Governance of Companies in which the Republic of Croatia has shares or stakes, adopted by the Government of the Republic of Croatia (Official Gazette 132/2017) at the end of 2017 in which it seeks to contribute with its business strategy and key internal acts to transparent and efficient operations and better relations with the business environment in which it operates through the application of anti-corruption provisions and mechanisms, measures and procedures to manage conflicts of interest.

In addition to the recommendations of these codes, and in accordance with the regulations of credit institutions, we are actively working on continuous improvement of corporate governance in the Bank, bearing in mind the structure and organization of the Bank, strategy and business objectives, distribution of powers and responsibilities. monitoring and reporting on risks in the Bank's operations, as well as establishing appropriate internal control mechanisms.

In order to reduce risk in the financial reporting process, the Bank has established an appropriate system of internal controls and risk management that is ensured through a clear delineation of responsibilities of participating organizational units in accordance with internal acts, and adequate and effective internal controls integrated into business processes and activities. A description of the basic features of conducting internal control in the company and risk management in relation to financial reporting can be found in the description of the Bank 's operations in Note 2.

Significant shareholders and restrictions on share rights

The Republic of Croatia is the most important individual shareholder of the Bank with 44.90% of the Bank's shares and together with the HP - Croatian Post d.d., Croatian Deposit Insurance Agency, Croatian Pension Insurance Institute and the Krško NPP Fund hold over 77% of share capital and voting rights at the General Assembly.

In accordance with the Bank's Statute, one share gives the right to one vote, i.e. the right to vote is not limited nor are there any restrictions for exercising the right to vote.

The Bank's shareholders exercise their rights at the General Assembly of the Bank. The General Assembly of the Bank decides on issues determined by the Companies Act and the Bank's Articles of Association. As a rule, the General Assembly is convened by the Bank's Management Board, and must be convened when requested by the Supervisory Board or shareholders in accordance with the relevant provisions of the Companies Act. The right to participate in the General Assembly of the Bank and to exercise the right to vote may be exercised by each shareholder in person or by proxy if he announces his participation in the General Assembly no later than six days before the General Assembly and if he is registered in the Central Depository submitting an application for participation in the work of the General Assembly.

Rules for the Appointment or Removal of the Management Board, Statute Changes and Special Authorizations of the Management Board

In accordance with the Bank’s Statute the Management Board should have at least 2 and no more than 5 members with the Supervisory Board deciding on the number. Members and the president of the Management Board are appointed by the Supervisory Board to a maximum of 5 years, and can be reappointed without time limit. Member of the Management Board must fulfill all the necessary conditions as set by The Companies Act, the Credit Institutions Act and the relevant bylaws, ie which has received the prior consent of the Croatian National Bank to perform the function for which it was appointed.

The suitability of an individual member of the Management Board of the Bank to perform the relevant function is the extent to which that person has the characteristics and meets the prescribed conditions to ensure that he will professionally, legally, safely and stably perform tasks within its competence.

The members of the Management Board must together have the professional knowledge, skills and experience necessary for the independent and autonomous management of the Bank's business, and in particular for understanding the Bank's business and significant risks.

Members of the Bank's Management Board must perform full-time management of the Bank and be employed by the Bank.

The Supervisory Board may, by its decision, recall the President and members of the Management Board when there is an important reason for this, and the President and members of the Management Board are entitled to make written resignations.

The Bank’s Statute can only be changed by the decision of the General Meeting. Decision is approved if voted by 3/4 of the equity holders. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General Assembly for consideration.

By the decision of the General Assembly of 10 May 2021, the Bank's Management Board was authorized to acquire the Bank's own shares on the organized securities market during the period from the date of the General Assembly decision to the next regular General Assembly of the Bank in 2022. relates to the acquisition of treasury shares together with treasury shares already held by the Bank may not exceed 1% of the share capital. By the same Decision of the General Assembly, the Management Board is authorized to dispose of its own shares outside the regulated market for the purpose and in accordance with regulatory requirements related to variable remuneration in accordance with the internal Revenue Policy. In February 2022, the Bank acquired a total of 341 HPB-R-A treasury shares in accordance with the Treasury Repurchase Program. Prior to the acquisition, the Bank held 795 treasury shares without rights, and after the said acquisition it held a total of 1,136 treasury shares without voting rights.

The release of this number of treasury shares was carried out in accordance with the General Assembly Decision on authorizing the Bank's Management Board to acquire and dispose of treasury shares from May 2021 and the Treasury Repurchase Program from January 2022 until the next regular General Assembly of the Bank in 2022 . Following the transfer, the Bank has no more treasury shares in its treasury account.

Supervisory Board Members and Activities

In accordance with the Bank's Statute, the Supervisory Board may have a maximum of seven members elected and recalled by the General Assembly. Only a person who meets the requirements prescribed by The Companies Act, the Credit Institutions Act and the relevant bylaws, ie who has obtained the prior consent of the Croatian National Bank to perform the function of a member of the Supervisory Board may be elected a member of the Supervisory Board.

The members of the Supervisory Board must together have the expertise, skills and experience necessary for independent and autonomous supervision of the Bank's operations, and in particular for understanding the Bank's operations and significant risks.

The suitability of an individual member of the Bank's Supervisory Board to perform the relevant function is the extent to which that person has the characteristics and meets the prescribed conditions to ensure that he will professionally, legally, safely and stably perform tasks within its competence.

The powers of the Supervisory Board are regulated by the Companies Act, the Credit Institutions Act, the Decision on the management system and the Bank's Articles of Association.

In the period from 1.1. to 12.8.2021 the Supervisory Board of the Bank consisted of three members, as follows:

- mr.oec. Marijana Miličević, President
- dr.sc. Željko Lovrinčević, Vice-president
- mr.sc. Marijana Vuraić Kudeljan, Member

The members of the Supervisory Board of the Bank were appointed at the General Assembly held on May 29, 2017 for a term of 4 years and their mandate began on August 12, 2017 upon obtaining the CNB's prior approval in accordance with the terms of the Credit Institutions Act.

In the period from 13.8. to 31.12.2021 the Supervisory Board of the Bank consisted of three members, as follows:

- mr.oec. Marijana Miličević, President
- prof.dr.sc. Mislav Ante Omazić, Vice-president
- mr.sc. Marijana Vuraić Kudeljan, Member

Members of the Supervisory Board of the Bank were appointed at the General Assembly held on May 10, 2021. for a term of 4 years, and their term began on 13.8.2021. after obtaining the prior consent of the CNB in accordance with the conditions of the Credit Institutions Act.

The members of the Supervisory Board are not the shareholders of the Bank.

Meetings of the Supervisory Board are usually held once a quarter (quarterly), and more often if necessary, and at least once every six months. The Supervisory Board may make decisions on important and urgent issues without holding a meeting, in which case the members express themselves in writing, by telephone, fax or e-mail.

In 2021, 11 regular meetings of the Supervisory Board were held, at which many issues related to the Bank's operations were discussed. All members of the Supervisory Board were present at the regular sessions.

Due to exceptional and extraordinary circumstances due to the aftermath of the earthquake in the center of Zagreb and the COVID-19 virus pandemic, and in order to implement the necessary measures to avoid gatherings and personal contacts, the Supervisory Board decided 108 times outside the meeting by e-mail. situations when individual decisions had to be made promptly, most of which referred to the Supervisory Board's approval of the Bank's exposure to individual clients in accordance with legal regulations, as well as other decisions that required the Supervisory Board's consent.

Board has following committees: Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee.

Audit Committee

In the period from 1.1. to 12.8.2021 the Audit Committee consisted of three members, as follows:

- dr.sc. Željko Lovrinčević, President
- Zlatko Benčić, Vice-president
- Ivana Radeljak Novaković, Member

In the period from 13.8. to 31.12.2021 the Audit Committee of the Bank consisted of three members, as follows:

- dr.sc. Željko Lovrinčević, President
- Ivana Radeljak Novaković, Vice-president
- Prof. dr. sc. Mislav Ante Omazić, Member

The majority of the members of the Audit Committee are independent of the Bank. In 2021, 11 regular meetings of the Audit Committee were held, which were attended by all members.

Issues within the competence of the Supervisory Board were discussed at the sessions. The Audit Committee assisted the Supervisory Board in performing its duties related to overseeing the financial reporting process, the audit process (including the recommendation to the General Assembly for the selection of the external auditor), the effectiveness of the internal audit system, discussing annual work plans and internal audit related to this area.

In addition to regular sessions, the Audit Committee decided outside the sessions 5 more times by e-mail, in situations when it was necessary to promptly make certain decisions/conclusions within its competence.

Risk Committee

In the period from 1.1. to 12.8.2021 the Risk Committee was composed of three members:

- mr.sc. Marijana Vuraić Kudeljan, President
- mr.oec. Marijana Miličević, Member
- dr.sc. Željko Lovrinčević, Member

In the period from 13.8. to 31.12.2021 the Risk Committee of the Bank consisted of three members:

- mr.sc. Marijana Vuraić Kudeljan, President
- mr.oec. Marijana Miličević, Member
- Prof. dr. sc. Mislav Ante Omazić, Member

In 2021, the Risk Committee held 6 regular sessions attended by all members.

At the sessions of the Risk Committee, issues within its competence were discussed in accordance with the Law on Credit Institutions and its bylaws. In addition to regular sessions, the Risk Committee decided outside the sessions 7 more times by e-mail, in situations when certain decisions / conclusions within its competence had to be made promptly.

Remuneration Committee

In the period from 1.1. to 12.8.2021 the Remuneration Committee was composed of three members as follows:

- mr.oec. Marijana Miličević, President
- mr.sc. Marijana Vuraić Kudeljan, Member
- dr.sc. Željko Lovrinčević, Member

In the period from 13.8. to 31.12.2021 the Remuneration Committee of the Bank consisted of three members:

- mr.oec. Marijana Miličević, President
- mr.sc. Marijana Vuraić Kudeljan, Member
- Prof. dr. sc. Mislav Ante Omazić, Member

In 2021, the Remuneration Committee held 3 regular meetings, which were attended by all members. At the sessions of the Remuneration Committee, issues within its competence were discussed in accordance with the Law on Credit Institutions and its bylaws.

In addition to regular meetings, the Remuneration Committee decided outside the sessions 3 more times by e-mail, in situations when certain decisions / conclusions within its competence had to be made promptly.

Nomination Committee

In the period from 1.1. to 12.8.2021 Nomination Committee was composed of three members as follows:

- mr.oec. Marijana Miličević, President
- dr.sc. Željko Lovrinčević, Member
- mr.sc. Marijana Vuraić Kudeljan, Member

In the period from 13.8. to 31.12.2021 Nomination Committee of the Bank consisted of three members:

- mr.oec. Marijana Miličević, President
- mr.sc. Marijana Vuraić Kudeljan, Member
- Prof. dr. sc. Mislav Ante Omazić, Member

In 2021, the Nomination Committee held 2 regular meetings, which were attended by all members. At the meetings of the Nomination Committee, issues within its competence were discussed in accordance with the Law on Credit Institutions and its bylaws.

In addition to the regular meetings, Nomination Committee decided outside the sessions 8 more times by e-mail, in situations when certain decisions/conclusions within its competence had to be made promptly.

Management Board Members and Activities

The privileges, duties and responsibilities of the Bank's Management Board in managing and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Bank's Statute and the Rules of procedure of the Bank's Management Board activities.

The Management Board of the Bank, in accordance with the needs of business processes, establishes permanent and occasional committees and commissions. The Bank's standing committees are the Credit Committee, the Assets and Liabilities Management Committee and the Operational Risk Management Committee.

In the period from 1.1. to 11.9.2021 year, the Management Board consisted of three members, namely:

- mr.sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.

Pursuant to the Decision of the Supervisory Board of 2 June 2021, on 9 September 2021 the Croatian National Bank gave its consent to the current members of the Bank's Management Board to perform the function of President and members of the credit institution's board for a two-year term starting on 12 September 2021.

In the period from 12.9. to 31.12.2021 the Management Board consisted of three members, as follows:

- mr.sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.

Members of the Management Board are not the shareholders of the Bank.

Overview of the Diversity Policy for the members of the Management Board and the Supervisory Board of the Bank

The diversity policy for the members of the Management Board and the Supervisory Board, adopted by the General Assembly of the Bank, aims to establish the necessary standards that ensure diversity and representation of both sexes in management and supervisory functions, ie the Management Board and the Supervisory Board.

The average target level of representation of the currently underrepresented gender - female - in the Bank's governing body is determined by the percentage of at least 33.3% that the Bank aims to achieve in the five-year period from 2021 to 2026, which is currently met at the overall level. governing body.

In the reporting period, the Bank's Supervisory Board consists of two members and one member, which makes the composition diverse by gender, given that the percentage of female representation is 66.7%, which is above the target level of at least 30% female representation in the Supervisory Board.

In the reporting period, the Bank's Management Board consists of the President of the Management Board and two members, which currently does not meet the criteria of gender diversity, given that the percentage of female gender is 0.0%, which is below the target level of 20%. in the Management Board of the Bank.

During 2021, the balance of the Supervisory Board and the Management Board was established according to the criteria of skills, experience, competencies and age, which is evident from the CVs of the Supervisory Board and the Management Board published on the Bank's website (*www.hpb.hr*). The fact that the Croatian National Bank took into account the positive results of the assessment of suitability on an individual and collective basis for the members of both bodies during the procedure of deciding on the prior consent for the performance of a particular relevant function. The Bank is aware of the importance of promoting diversity and non-discrimination policies in the workplace and in employment, so the representation of women is relatively high among key management (detailed in the Human Resources Management section of Hrvatska poštanska banka), and continues to strive any basis in the management of the Bank.

Overview of diversity policy

In accordance with the Code of Ethics, the Bank appreciates and respects the natural and cultural differences between people. All employees are equal regardless of gender, age, nationality, ethnic origin, religion, language, social, economic status and other discriminatory factors. Accordingly, in 2021, the General Assembly of the Bank adopted the Diversity Policy for the members of the Management Board and the Supervisory Board of the Bank. All employees have the same opportunity for success in the Bank and their position depends solely on the performance and performance of each individual. There is no discrimination by sex, age or any other basis in procedure of selecting members of the Management Board, Supervisory Board or other bodies. The Bank has relatively high percentage of female managers, as well as people of different age groups, educational orientation, knowledge and skills and specific work experience. The Bank will keep this policy of gender, age and professional diversity, where the number of key management has decreased over the years through organizational improvements. In this way, the strategy of achieving the goals of diversity is implemented, which is based on the development of inclusiveness in the management of the Bank, ie the promotion of opportunities for advancement at all levels, regardless of gender.

With regard to employee remuneration and working conditions, in order to achieve equal opportunities for both sexes, the Bank's management insists on striking a balance between private and business life, with the aim of creating a healthy and comfortable working environment. All employees have an equal opportunity to succeed in the Bank, and their position depends solely on the work results and performance of each individual.

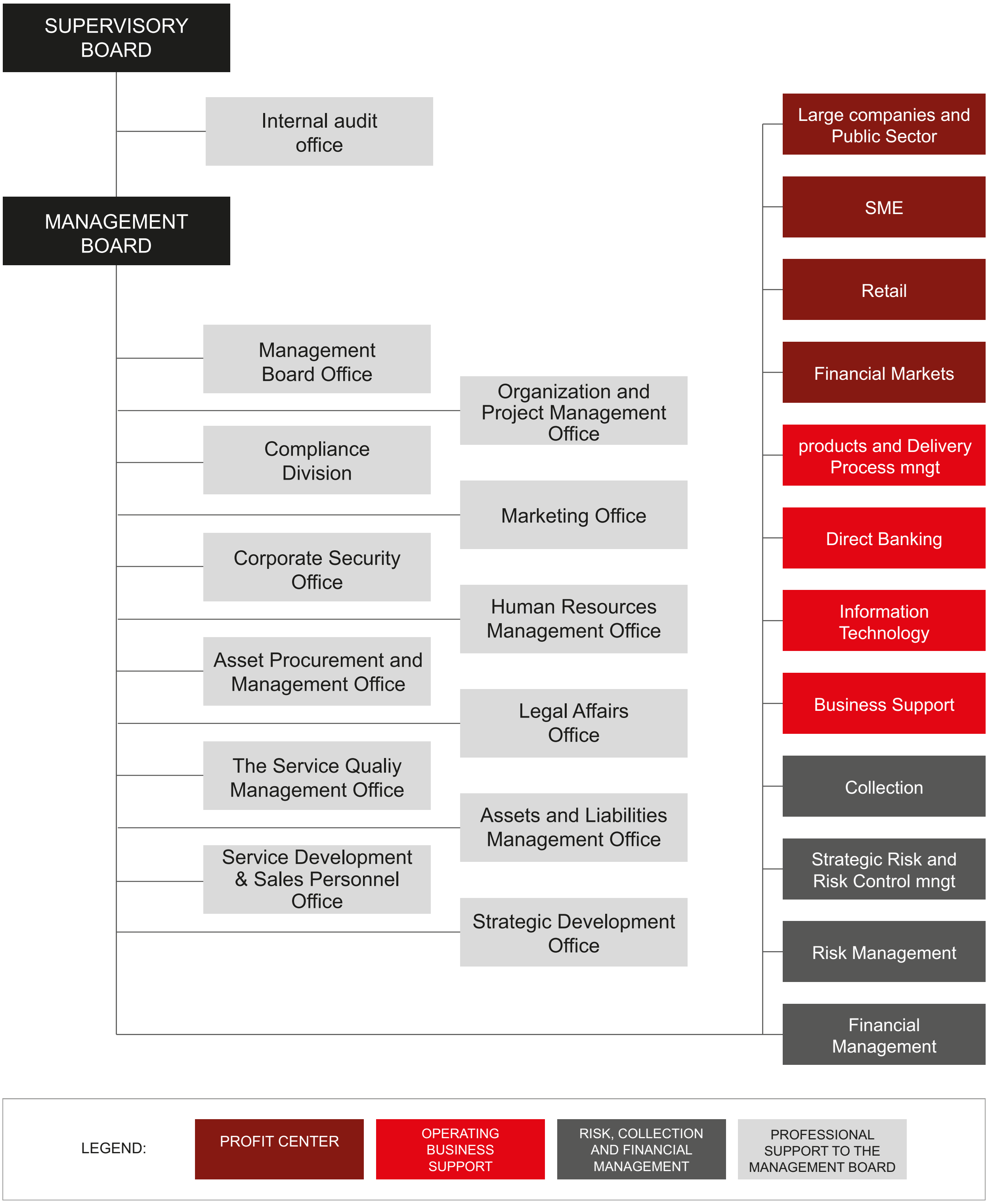
The collective experience of members of the Bank's key management consists of a balanced combination of the necessary knowledge and skills to fulfill the responsibilities of all functions and achieve the Bank's objectives.

Structure of the Bank's key management by gender 2018 - 2021

	No. during 2018	Share during 2018	No. during 2019	Share during 2019	No. during 2020	Share during 2020	No. during 2021	Share during 2021
Male	30	50.85%	19	47.50%	20	57.15%	17	54.83%
Female	29	49.15%	21	52.50%	15	42.85%	14	45.17%

Hrvatska poštanska banka organizational structure

The Bank’s operations are organized through 25 organizational units - 13 sectors and 12 offices, as follows:



The Bank's organizational unites are divided into 4 basic business areas including:

1. Professional support to the Management Board,
2. Profit centers,
3. Operating business support,
4. Risk, collection and financial management.

Business area functionally and technologically connects certain Bank's organization units to ensure efficient management and business organization.

Professional support to the Management Board implies groups of tasks whose purpose is to provide the Management Board with professional support in achieving business goals and organizing and managing the Bank.

- Professional support to the Management Board is consisted of:
- Internal audit office,
- Management Board office,
- Compliance division,
- Organization and project management office,
- Human resources management office,
- Marketing office,
- Corporate security office,
- The service quality management office,
- Legal affairs office,
- Asset procurement and management office,
- Assets and liabilities management office,
- Strategic development office,
- Service development and sales personnel office.

Internal audit office is the Bank's organizational unit that evaluates internal control and risk management system, compliance function and performs IT audit.

Management Board office is an organizational unit that provides support in the work of permanent authorities and committees of the Bank, and provides professional support in the management of corporate communications of the Bank and members of the HPB Group.

Compliance division is an organizational unit that takes care of the compliance of the Bank's operations with regulations, manages the system of personal data protection and privacy protection, the system of fraud prevention and the system of prevention of money laundering and terrorist financing in the Bank.

Organization and project management office is an organizational unit that analyzes and improves the organization and business processes and manages projects.

Human resources management office is an organizational unit of the Bank that is engaged in recruiting, developing and rewarding employees of the Bank and regulating labor legal relations with employees and government authorities.

Marketing office is an organizational unit of the Bank that prepares and implements marketing and promotional activities for the Bank.

Corporate security office is an organizational unit of the Bank that takes care of the security of the Bank's information system, people and assets.

The service quality management office is an organizational unit of the Bank that manages the quality of the Bank's service to its clients through continuous implementation of measuring and researching customer satisfaction and proposing improvements to build up the quality of service.

Legal affairs office is an organizational unit of the Bank that provides legal support to all organizational units of the Bank.

Asset procurement and management office is an organizational unit of the Bank that manages the procurement of goods and services, general affairs and registration and archives of the Bank, current business and investments and maintenance of the Bank's operating assets and manages assets taken in exchange for uncollected receivables.

Assets and liabilities management office is an organizational unit of the Bank that manages assets and liabilities, open currency items, market risk positions and liquidity risk positions.

Strategic development office is the organizational unit of the Bank in charge of business development of the Bank and HPB Group, the process of strategic planning and control of the implementation of the strategic plan of the Bank and HPB Group.

Service development and sales personnel office is an organizational unit of the Bank in charge of supporting the development and improvement of the service model and sales staff to organizational units that enter into business relations and do business with retail clients and small and medium enterprises.

Profit center represent related groups of transactions organized into organizational units in which all products and services of the Bank are sold.

Profit centers are consisted of:
- Retail department,
- SME department,
- Large corporate and public sector department,
- Financial markets department.

Retail department is an organizational unit of the Bank that operates on the market and provides banking and financial services to the retail clients on market principles, coordinates the work of regional retail centers and branches of the Bank and the company Hrvatska pošta d.d./Croatian post p.l.c. as a distribution channel.

SME department is an organizational unit of the Bank that operates on the market and establishes business relations with the Bank's clients in the area of business with small and medium-sized enterprises on market principles.

Large corporate and public sector department is an organizational unit of the Bank that operates on the market and establishes business relations with the Bank's clients in the area of business with large corporates and the public sector on market principles.

Financial markets department is an organizational unit of the Bank that trades in financial instruments on behalf and for the account of the Bank, manages liquidity and foreign exchange position of the Bank and provides investment services and investment activities and related services within the Bank's activities.

Operating business support represent related groups of operations organized into organizational units in which support is provided for the sale of products and services and the overall operations of the Bank.

Operating business support is consisted of following departments:
- Products and Delivery Processes management,
- Direct Banking.
- Business Support,
- Information Technology,

Products and Delivery Processes management is an organizational unit that provides efficient processes, products and services that will meet the needs of customers and business and sales goals of the Bank.

Direct Banking is an organizational unit responsible for the smooth operation and development of all direct distribution channels of products and services of the Bank and members of the HPB Group and card business (ATM, POS, WEB, e-Branch, mBanking and eBanking)

Business support is an organizational unit of the Bank that provides operational support to organizational units of the profit centers, performs domestic and foreign payment operations, cash management and supplies the business network of the Bank and Croatian Post with cash.

Information Technology is an organizational unit of the Bank that provides IT support to all organizational units of the Bank.

Risk, collection and finance management represent groups of operations organized into organizational units in which risk management, collection of the Bank's receivables and financial management are performed.

Risk, collection and financial management is consisted of following departments:
- Credit risk management,
- Strategic risk and risk control management,
- Collection management,
- Finance management.

Credit risk management is an organizational unit of the Bank that performs the function of taking risks and manages the process of determining the creditworthiness of clients and assessing the credit risk of placements in the process of approving placements.

Strategic risk and risk control management is an organizational unit of the Bank that manages strategic risks, analyzes and controls all types of risks to which the Bank is exposed or could be exposed in its operations, in order to reduce potential exposure to all types of risks and ensure stability and efficiency of operations.

Collection management is an organizational unit of the Bank that performs receivables restructuring and activities of early and forced collection of receivables.

Finance management is an organizational unit of the Bank which manages the Bank's accounting system, performs regulatory reports, financial controls and develops management reporting system.

Human resource management in Hrvatska poštanska banka

During 2021, the Bank continued to develop positive practices in human resource management in accordance with the Bank's strategy and corporate values.

The continuous development of the Bank's operations in accordance with the defined strategy is supported by the employment of expert employees in the digital domains of operations and the development of the competencies of existing employees in order to be able to successfully respond to the needs of the market and clients.

Significant progress in the development of the Bank's employees was achieved through the introduction of the Knowledge Nursery model and more intensive use of digital online learning platforms. The launch of the Data Nursery, which aims to improve the data-analytical competencies of employees, emphasizes independent learning and encourages the development of personal development plans of employees.

During 2021, a model of key competencies was developed that reflects the corporate values related to the vision and mission of the Bank, and a model of managerial competencies was additionally defined. The biggest step forward in defining professional competencies was made within the IT sector, where the methodology for determining key positions and employees was developed, which is the basis for talent management and a positive step towards systematic management of progress.

For the purpose of promoting the Bank as a desirable employer and more efficient employment of IT profiles of employees, a plan of employer branding activities was prepared at the beginning of the year. Valuable insights were obtained through a survey conducted in the IT sector and more intensive cooperation was achieved with faculties in the technical domain.

In order to improve the organizational climate, culture and engagement, an organizational vitality survey was conducted, the results of which were presented to all employees. Improvement measures have been designed to be implemented in the coming years at the Bank level. The conducted research is important because it represents the beginning of systematic management of organizational climate, culture and engagement.

Human resource management processes have been further improved and digitized. A completely new digital system for the employment process has been implemented and the process for the introduction of a new information system for human resource management has been launched. During 2021, the process of improving the performance management system for all employee and managerial positions of the Bank continued with the aim of encouraging the organization's focus on achieving results and building a culture of excellence.

Employee remuneration policies have been revised, rules and pay adjustment cycles have been defined to ensure employer attractiveness and high employee engagement in challenging market conditions.

Having in mind the necessity of responsible and business sustainable management of employee costs, the model of regular, monthly management reporting of the Bank's management on key indicators related to human resources such as total cost and number of employees, voluntary and involuntary turnover, absences, etc. was implemented.

In order to facilitate and more efficient implementation, the process of proposing and implementing organizational changes and related changes in employment contracts and employee compensation has been structured.

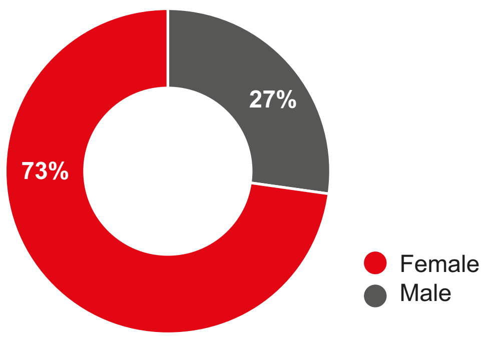
The Bank is in the process of renewing the „Employer Partner" certificate and continues to further improve the human resources management process.

Overview of the movement of the number of employees in the Bank 2017 – 2021

No. of employees	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Based on the working hours	842	1,036	1,063	1,275	1,279
At the end of the period	1,122	1,118	1,252	1,301	1,289

All positions in the Bank are located in the Republic of Croatia.

Structure of employees in Hrvatska poštanska banka by gender as of 31.12.2021

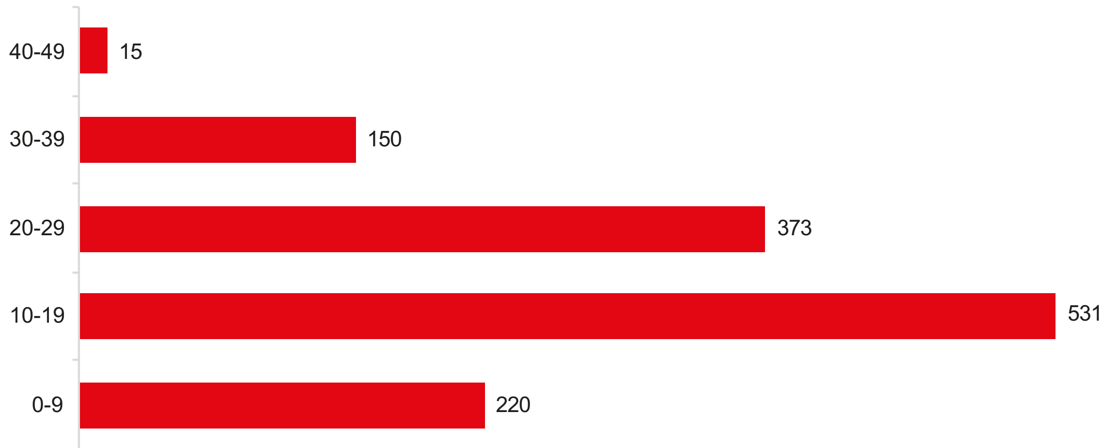


Educational structure of employees in a Bank 2017 – 2021

Employees with high or higher education have a dominant share in the educational structure, depending on the complexity of the job and workplace.

Qualification	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Master's degree/ doctorate	14	12	19	27	45
University degree	475	473	539	566	550
Higher education	187	193	203	210	211
High school education	444	439	490	497	482
Semi-skilled, skilled and highly skilled	1	1	1	1	1
Total	**1,122**	**1,118**	**1,252**	**1,301**	**1,289**

Number of employees in Hrvatska poštanska banka by years of service as of 31.12.2021:



Subsidiaries operations

HPB Invest Ltd

HPB Invest Ltd (hereinafter referred to as the Company) is a company established for the purpose of establishing and managing UCITS funds. HPB Invest d.o.o. on 31.12.2020 manages 6 open-end investment funds with a public offering (HPB Short-term Kuna bond fund, HPB Short-term euro bond fund, HPB Bond fund, HPB Bond plus fund, HPB Global fund and HPB Equity fund).

Total assets of open-end investment funds with a public offering managed by HPB Invest Ltd as at 31 December 2021 amounts to HRK 913 million (2020: HRK 899 million). The average assets in 2021 amounted to HRK 892 million, and in the previous year HRK 885 million.

Due to low yields on bonds and the emergence of higher inflation rates around the world, the HPB Bond Fund had a negative yield and this led to a further decline in its assets. On the other hand, there was an increase in assets in riskier funds, due to clients' search for higher potential returns.

The company, despite difficult market conditions, had no problems with customer payments and ended the year with a positive result.

The asset structure of the funds under management is as follows:

Fund	Asset under management HRK '000	Yield as at 31.12.2021 in %
HPB Equity fund	34,069	18.58%
HPB Global fund	98,194	16.12%
HPB Short-term Kuna bond fund	363,076	0.18%
HPB Bond fund	289,955	(2.82%)
HPB Short-term euro bond fund	25,951	0.60%
HPB Bond Plus fund	101,526	0.51%

Market share of HPB Invest as at 31.12.2021 is 4.35%, which represent a decrease compared to the previous year when market share was 5.09%

At the end of 2021, the Company had 12 employees.

Development plan

HPB Invest Ltd, a UCITS fund management company, will continue to be committed to professional asset management and high-quality service, in order to ensure the preservation and sustainable growth of the value of their financial assets to its clients. With continuous investment in the development policy of the Company, which includes continuous professional, personnel, organizational and technological improvements, with increasingly demanding legal and regulatory harmonization of operations, HPB Invest Ltd will provide in the long run an attractive range of funds and investment products, which with professional management and appropriate returns can meet all the needs of investors, depending on their investment goals, investment horizon and risk appetite.

Risk exposure

The Company specifically monitors and measures the following risks: credit risk, liquidity risk, operational risk, conflict of interest risk and reputational risk. These risks form the overall risk profile of the Company.

The Company has taken a conservative stance in managing its assets by investing them exclusively in bank deposits, debt securities, money market instruments and money market funds. For this reason, the risk profile of the Company is low, i.e. 1.

At the reporting date, the Company was not exposed to significant market risk and liquidity risk. The majority of the Company's exposure to credit risk at the statement of financial position date arises from the fair value of the instrument whose positive value at reporting date is presented in the statement of financial position.

The Company is exposed to operational risk through its regular operations. The Company manages operational risk by reporting quarterly to the Company's Management Board on events that may qualify as operational risk for the Company.

Risks that may affect the Company's regular operations are the risk of a decrease in assets under management due to the withdrawal of client funds and the risk of a decrease in assets under management due to a decline in the value of assets.

The Company gives special importance to the internal control system in order to be able to monitor the efficiency of operations, compliance with legal regulations, monitoring and detection of risks to which the Company is exposed.

HPB-nekretnine Ltd

HPB-nekretnine Ltd (hereinafter the Company) is a real estate company established in August 2005 and is wholly owned by HPB d.d. The share capital of the Company amounts to HRK 4,760,800.

The Company's core business activities are (1) real estate appraisal and related engineering services such as financial supervision, (2) real estate consulting and mediation services, and (3) real estate operations and management.

HPB-nekretnine Ltd assets as at 31 December 2021 amounts to HRK 10.83 million, and the net profit realized in the previous year is HRK 586 thousand. At the end of 2021, the Company had 14 employees.

Development plan

In the next period, the emphasis will be on raising the efficiency and quality of service for clients of Hrvatska poštanska banka d.d. The Company will build its development and business policy on specific services, such as expert supervision and the preparation of expert opinions, thus contributing to the visibility and synergistic effect of the HPB Group's operations. At the same time, with an active approach to external clients, we plan to generate additional income for the Company.

Risk exposure

The most significant types of financial risks to which the Company is exposed are market risk and liquidity risk. Market risk implies a difficult to predict volume of demand for specific services of the Company given the uncertainty in the real estate market caused by the earthquake and COVID-19 pandemic. Market risk refers to the inability of tenants to pay rents as well as the possibility of reducing the demand for real estate appraisal services, and related liquidity risk due to the high share of services in the Company's products. The Company manages risks in accordance with the prescribed policies and procedures of Hrvatska poštanska banka p.l.c.

The company owns two properties, one in Osijek and the other in Vinkovci. Business premises in Osijek are leased to Hrvatska poštanska banka d.d. Ownership of real estate in Vinkovci represents a risk in business because it is a share of ownership 322/900 in an office building with a total area of about 10,000 m2, which is in poor construction condition. The conclusion of the Agreement on the sale of business premises of the branch of Hrvatska poštanska banka d.d. is currently underway. in Vinkovci, and public tenders are being prepared with the aim of selling other business premises.

Responsibilities of the Management Board for the preparation and approval of the Annual financial statements

Management Board is responsible for preparation of consolidated and separate financial statements of Hrvatska poštanska banka p.l.c. (hereinafter "the Bank") for each financial year that give a true and fair view of the financial position of the Group and the Bank and their results and cash flows in accordance with applicable standards, and is responsible for keeping the proper accounting records required for the preparation of these financial statements at any given time. The Management Board is also responsible for the whole annual report of the Group, as well as the forms of financial statements prepared in accordance with the Decision of the Croatian National Bank on the structure and content of bank's annual financial statements (Official Gazette 42/18, 122/20 and 119/21). The Management Board has overall responsibility for taking such measures to safeguard the assets of the Bank and the Group 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 statements 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 Annual report to the Supervisory Board for approval, which includes the annual financial statements. If the Supervisory Board gives consent to the financial statements, they are approved by the Management Board and the Supervisory Board of the Bank.

The Management Board is responsible for preparation and contents of the annual report in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20).

Consolidated and separate financial reports presented on pages 103 to 234, as well as Forms drafted in line with CNB Decision on Forms and Contents of Bank Financial Reports (Official Gazette 42/18, 122/20 and 119/21), outlined on pages 235 to 248, were approved by the Management Board on March 30, 2022 and have been submitted for acceptance to the Supervisory Board.

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

Signed on behalf of Hrvatska poštanska banka, p.l.c.

Marko Badurina
President of the Management Board

Ivan Soldo
Member of the Management Board

Anto Mihaljević
Member of the Management Board

Independent Auditor's Report

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E-mail: bdo-croatia@bdo.hr

BDO Croatia d.o.o.
10000 Zagreb
Radnička cesta 180

Independent Auditor's Report

To the shareholders of Hrvatska poštanska banka d.d., Zagreb

Audit report on the separate and consolidated annual financial statements

Opinion

We have audited the separate annual financial statements of Hrvatska poštanska banka d.d., ("the Bank") and the consolidated annual financial statements of the Bank and its subsidiaries ("the Group"), which include the separate and consolidated statements of financial position of the Bank and the Group as at 31 December 2021, separate and consolidated income statements and other comprehensive income, the separate and consolidated statements of cash flows and the separate and consolidated statements of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements presents a true and fair view of the financial position of the Bank and the Group as at 31 December 2021, and of their respective financial performance and cash flows for the year then ended in accordance with the with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's report. We are independent of the Bank and the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matters (continued)

<table>
<tr><th colspan="2">Impairment of loans and advances to customers</th></tr>
<tr><td colspan="2">As at 31 December 2021, in the consolidated financial statements gross loans and advances to customers amounted to HRK 15,805 million, related impairment allowance of HRK 1,553 million and impairment loss recognised in the income statement of HRK 56 million (31 December 2020: gross loans and advances: HRK 16,304 million, impairment allowance: HRK 1,581 million, impairment loss recognised in the income statement: HRK 141 million).

As at 31 December 2021, in the separate financial statements gross loans and advances to customers amounted to HRK 15,805 million, impairment allowance of HRK 1,553 million and impairment loss recognised in the income statement of HRK 56 million (31 December 2020: gross loans and advances: HRK 16,304 million, impairment allowance: HRK 1,581 million, impairment loss recognised in the income statement: HRK 141 million).</td></tr>
<tr><th>Key audit matter</th><th>How we addressed the key audit matter</th></tr>
<tr><td>We focused on this area due to the significance of the amounts involved in the separate and consolidated financial statements and also because of the nature of the judgements and assumptions that the management is required to make.

impairment allowance represent management's best estimate of risk of default and the expected credit losses within the loans and advances at the reporting date.

Management makes judgments about the future and various items in the separate and consolidated financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customer represent significant estimates.

The key areas of judgement associated with credit loss allowances for loans and advances to customers are the identification of loans that are deteriorating, the assessment of significant increase in credit risk, forecasts of future cash flows as well as expected proceeds from the realization of collateral and the determination of the expected credit losses of loans and advances to customer which are all inherently uncertain.

The impairment allowance is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.</td><td>In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our opinion.

Our audit procedures in this area included, among others:

• reviewing the methodology of the Bank and the Group for the calculation of the expected credit loss and assessing its compliance with the requirements of International Financial Reporting Standards 9: Financial Instruments (“IFRS 9”),

• obtaining an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the expected credit loss model,

• assessing and testing of IT control environment for data security and access,

• evaluating the design, implementation and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans and advances,</td></tr>
</table>

Key audit matters (continued)

Key audit matter	How we addressed the key audit matter
For individually significant loans or exposures that are exceeding HRK 1 million individually and for which there has been a default (non-revenue exposures), the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowance are determined on an individual basis by means of a discounted cash flows analysis. Impairment allowance for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below HRK 1 million individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit. **Related disclosures accompanying the annual financial statements** For additional information see notes 1 (Significant accounting policies) and 3 (Accounting estimates and judgements in applying accounting policies) and notes 11 (Loans and advances to customers) and 2.1. (credit risk section of the note 2 Financial risk management policies).	• testing the design, implementation and operational effectiveness of selected key controls in the areas of customer rating, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowance, • testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies, • evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)), • testing the adequacy of individual loan loss allowances, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, • conducting an evidentiary test of the selected sample to assess the correctness of the loan classification, • in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank, • critically evaluating the impact of COVID-19 pandemic on impairment allowances for expected credit losses and assessing the local regulatory framework impacted by COVID-19 pandemic, • evaluating the accuracy and completeness of the financial statement disclosures.

Other information in the Annual Report

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

Our opinion on the separate and consolidated annual financial statements does not include other information and, except to th e extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the separate and consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated annual financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report.

The Management Board is responsible for compiling the Management Board Report for the Bank and the Group as an integral part of the Bank's and the Group's Annual Report. With respect to the Management Board Report of the Bank and of the Group and the Statement on the Implementation of Corporate Governance Code, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Board Report of the Bank and of the Group has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the specific information in the Statement on the Implementation of Corporate Governance Code required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Implementation of Corporate Governance Code") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

- the information given in the Management Board Report of the Bank and of the Group and the relevant sections of the Statement on the Implementation of Corporate Governance Code as part of the Annual report of the Bank for the financial year for which the financial reports have been prepared are in accordance, in all significant determinants, with the separate and consolidated annual financial statements of the Bank and of the Group set out on pages 103 to 234 on which we expressed our opinion as stated in the Opinion section above;
- the information given in the Management Board Report of the Bank and of the Group and the relevant sections of the Statement on the Implementation of Corporate Governance Code is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this respect.

Responsibilities of Management and those charged with Governance for the Annual Financial Statements

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

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

Auditor's Responsibility for the Audit of the Annual Financial Statements

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

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

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

Auditor's Responsibility for the Audit of the Annual Financial Statements (continued)

- evaluate the overall presentation, structure and content of the separate and consolidated annual financial statements, including the disclosures, and whether the separate and consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal requirements

On 1 October 2021, the General Assembly of the Bank appointed us to conduct an audit of the Bank's separate and consolidated annual financial statements for the year 2021.

At the date of this Independent Auditor's Report, we have been continuously engaged in performing the statutory audit of the Bank's annual financial statements since 2020, which makes two years in total.

In the audit of the Bank's separate and consolidated annual financial statements for 2021, we have determined the following materiality levels for the financial statements as a whole:

- for the separate annual financial statements: HRK 52 million
- for the consolidated annual financial statements: HRK 52 million

which represents approximately 2% of the of the Bank's or Group's net assets for the year 2021.

We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by users and is a generally acceptable benchmark. Our audit opinion is consistent with the additional report for the Bank's auditing board, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited separate and consolidated annual financial statements of the Bank for the year 2021 and the date of this Report, we did not provide the Bank and the Group with prohibited non-assurance services and we did not provide internal control or risk management procedure design and implementation services in the business year prior to the aforementioned period related to the preparation and/or control of financial information or the design and implementation of financial information technological systems and we have maintained independence in relation to the Bank during the performance of the audit.

Report on other legal requirements (continued)

Pursuant to the Decision on the structure and contents of annual financial statements published by Croatian National Bank (OG 42/18 and 122/20), the Bank's Management prepared forms presented on pages 235 do 248 (hereinafter „the Forms"). The financial information in the Forms is derived from the separate and consolidated financial statements set out on pages 103 to 234 on which we expressed our opinion as stated in the section Opinion above.

Report based on the requirements of the ESEF Regulation

Auditor's assurance report on the compliance of annual separate and consolidated financial statements (hereinafter: financial statements), prepared pursuant to the provision of Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/20 and 83/21) by applying the Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We conducted the engagement with expressing reasonable assurance as to whether the financial statements prepared for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, which are contained in the electronic file hrvatskapostanska-2021-12-31-hr in all material aspects prepared in accordance with the requirements of the ESEF Regulation.

Responsibilities of Management and those charged with governance

The Bank's Management is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation. In addition, the Bank's Management is responsible for maintaining a system of internal controls that reasonably assures the preparation of financial statements without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

The Management of the Bank is also responsible for:

- public disclosure of the financial statements contained in the annual report in a valid XBRL format, and
- selection and use of XBRL codes in accordance with the requirements of the ESEF Regulation.

Those in charge of governance are responsible for overseeing the preparation of financial statements in the ESEF format as part of the financial reporting process.

Auditor's responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

Report based on the requirements of the ESEF Regulation

Procedures performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance. However, it does not assure that the scope of testing will reveal all significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we have performed the following activities:

- we have read the requirements of the ESEF Regulation,
- we have gained an understanding of the Bank's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and
- based on that, we have planned and designed procedures for responding to assessed risks and for obtaining reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the financial statements, which are included in the separate and consolidated annual report, are prepared in the valid XHTML format,
- the information contained in the separate and consolidated financial statements required by
- ESEF Regulation, are labelled and all labels meet the following requirements:
- XBRL markup language was used,
- the elements of the basic taxonomy listed in the ESEF Regulation with the closest accounting meaning were used, unless an additional element of taxonomy has been created in accordance with Annex IV ESEF Regulations,
- the labels comply with the common labelling rules under the ESEF Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusion

In our opinion, based on the procedures performed and the evidence obtained, the financial statements presented in ESEF format, contained in the above-mentioned electronic file and based on the provision of Article 462, paragraph 5 of the Capital Market Act prepared for the purposes of public disclosure, in all material respects are in line with the requirements of the ESEF Regulation for the year ended 31 December 2021. Our conclusion is not an opinion on the truthfulness and fair presentation of the financial statements presented in electronic form. In addition, we do not express our assurance in other information published with documents in ESEF format.

The partner engaged in the audit of the Bank's and Group's annual financial statements for the year 2021 resulting in this Independent auditor's report is Ivan Čajko, certified auditor.

Zagreb, 30 March 2022
BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb

For signatures, please refer to the original Croatian auditor's report, which prevails.

Consolidated Statements

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in HRK '000	Notes	31.12.2021	31.12.2020
ASSETS			
Cash and Amounts Due from Banks	5	6,192,555	3,684,942
Mandatory Reserve with Croatian National Bank	6	1,326,442	1,219,157
Loans and Receivables from Banks	7	289,837	379,399
Financial Assets at Fair Value through Profit and Loss	8	625,986	758,106
Financial Assets at Fair Value through Other Comprehensive Income	9	4,601,297	4,158,035
Financial Assets at Amortized Cost	10	453	1,975
Loans and Receivables from Customers	11	14,251,800	14,722,770
Assets Held for Sale	12	9,200	-
Property, Equipment and Assets with right of use	14	248,636	259,000
Investment Property	15	67,642	73,430
Intangible Assets	16	93,381	91,231
Tax Prepayment		637	2,714
Other Assets	18	124,656	113,019
TOTAL ASSETS		**27,832,522**	**25,463,778**
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss	19	-	21
Deposits from Banks	20	28,025	96,635
Customer Deposits	21	23,412,844	21,110,846
Borrowings	22	1,396,886	1,466,641
Provisions for Liabilities and Expenses	23	88,080	116,424
Deferred Tax Liabilities, Net	17	26,282	23,483
Income tax liability		35,887	-
Other Liabilities	24	187,771	170,825
TOTAL LIABILITIES		**25,175,775**	**22,984,875**
EQUITY AND RESERVES			
Share Capital	25	1,214,775	1,214,775
Treasury shares	25	(477)	(477)
Reserves for treasury shares	25	4,477	4,477
Statutory Reserve	25	40,010	30,907
Other Reserves	25	657,992	576,064
Fair Value Reserve	25	212,651	242,231
Revaluation Reserve	25	27,543	22,744
Retained Earnings	25	499,776	388,181
TOTAL EQUITY AND RESERVES		**2,656,747**	**2,478,902**
TOTAL LIABILITIES, EQUITY AND RESERVES		**27,832,522**	**25,463,778**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

	Notes	2021 HRK '000	2020 HRK '000
Interests and Similar Income	26	556,257	585,463
Interests and Similar Expense	27	(32,149)	(48,236)
Net Interest Income		**524,108**	**537,227**
Fees and Commissions Income	28	490,053	456,855
Fees and Commissions Expense	29	(291,606)	(275,141)
Net Fees and Commissions Income		**198,447**	**181,714**
Net Gains/(Losses) from Financial Instruments at Fair Value through Profit and Loss	30	25,694	(16,369)
Net gains from Financial Instruments at Fair Value through Other Comprehensive Income	31a	-	35,036
Net Gains from Dealing in Foreign Currencies	31b	57,476	54,812
Other Operating Income	32	24,784	18,219
Trading and Other Income		**107,954**	**91,698**
Operating Income		**830,509**	**810,639**
General and Administrative Expenses	33	(450,102)	(442,985)
Other expenses		(22)	-
Depreciation and Amortization	14,15,16	(67,823)	(76,630)
Impairment Losses on Loans and Receivables from Customers and Other Assets	34	(65,810)	(121,364)
Provisions for Liabilities and Expenses	23	(307)	58,910
Operating Expenses		**(584,064)**	**(582,069)**
PROFIT BEFORE TAX		**246,445**	**228,570**
Income Tax expense	35	(43,820)	(45,186)
PROFIT FOR THE YEAR		**202,625**	**183,384**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

	2021 HRK '000	2020 HRK '000
Profit for the Year	**202,625**	**183,384**
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	6,411	(7,533)
Equity instruments in assets carried at other comprehensive income - net change in fair value	(1,553)	(6,402)
Change in actuarial gains	(3,219)	1,826
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	(1,612)	1,511
	27	**(10,598)**
Items that may be reclassified subsequently to profit or loss:		
Unrealized loss from Assets Valued through Other Comprehensive Income	(31,302)	(56,213)
Sale of Financial Assets Valued through Other Comprehensive Income	-	(32,521)
Income Tax Relating to Items That May Be Reclassified Subsequently	6,493	16,795
	(24,809)	**(71,939)**
Other Comprehensive Loss for the Year, net of tax	**(24,782)**	**(82,538)**
Total Comprehensive Income for the Year	**177,845**	**100,847**

	2021 HRK '000	2020 HRK '000
Profit for the Year attributable to:	**202,625**	**183,384**
The Bank's Owners	202,625	183,384
Earnings per share	***100.12 kn***	***90.61 kn***
From active and discontinued parts of Business:		
Basic (in HRK per share)	100.12 kn	90.61 kn
Diluted (in HRK per share)	100.12 kn	90.61 kn

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity and Reserves

for the year ended 31 December 2021

Group	Share Capital HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other Reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Balance at 1 January 2020 (as previously reported)	**1,214,775**	**(477)**	**4,477**	**535,085**	**314,658**	**659**	**307,543**	**2,376,720**
Corrected	**-**	**-**	**-**	**-**	**4,088**	**28,108**	**(30,859)**	**1,337**
Balance at 1 January 2020	**1,214,775**	**(477)**	**4,477**	**535,085**	**318,746**	**28,767**	**276,683**	**2,378,056**
Revaluation Reserve	-	-	-	-	-	(7,533)	-	**(7,533)**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	(6,402)	-	-	**(6,402)**
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	(56,213)			**(56,213)**
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	(32,521)	-	-	**(32,521)**
Change in actuarial gains/losses	-	-	-	-	1,826	-	-	**1,826**
Deferred Tax	-	-	-	-	16,795	1,511	-	**18,306**
Net profit for the period 01.01. - 31.12.2020	**-**	**-**	**-**	**-**	**-**	**-**	**183,384**	**183,384**
Total Comprehensive Income for 2020	**-**	**-**	**-**	**-**	**(76,515)**	**(6,023)**	**183,384**	**100,847**
Distribution of 2019 Profit								
- Transfer to Statutory and Other Reserves	-	-	-	71,887	-	-	(71,887)	**-**
Balance at 31 December 2020	**1,214,775**	**(477)**	**4,477**	**606,971**	**242,231**	**22,744**	**388,181**	**2,478,902**
Balance at 1 January 2021	**1,214,775**	**(477)**	**4,477**	**606,971**	**242,231**	**22,744**	**388,181**	**2,478,902**
Revaluation Reserve	-	-	-	-	-	6,411	-	**6,411**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	(1,533)	-	-	**(1,533)**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	(31,302)	-	-	**(31,302)**
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	**-**
Change in actuarial gains/losses	-	-	-	-	(3,219)	-	-	**(3,219)**
Deferred Tax	-	-	-	-	6,493	(1,612)	-	**4,882**
Net profit for the period 01.01. - 31.12.2021	**-**	**-**	**-**	**-**	**-**	**-**	**202,625**	**202,625**
Total Comprehensive Income for 2021	**-**	**-**	**-**	**-**	**(29,580)**	**4,799**	**202,625**	**177,845**
Distribution of 2020 Profit								
- Transfer to Statutory Reserves and other reserves	-	-	-	91,031	-	-	(91,030)	-
Balance as at 31 December 2021	**1,214,775**	**(477)**	**4,477**	**698,002**	**212,651**	**27,543**	**499,776**	**2,656,747**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

HRK '000	Notes	01.01. – 31.12.2021	01.01. – 31.12.2020
Cash Flows from Operating Activities			
Profit Before Taxation		246,445	228,570
Adjusted by:			
- Depreciation and Amortization	14,15,16	67,823	76,081
- Foreign Exchange (Gains)/Losses	32	7,593	8,625
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		65,806	121,364
- (gains) / losses on provisions for liabilities and charges	23	307	(58,910)
- Net change on Financial Assets at Fair Value	30	(83,170)	(82,104)
- Net interest income		(524,111)	(537,335)
- Dividend income		(2,044)	(3,293)
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		(4,727)	(133,106)
Mandatory CNB Reserves		(107,285)	339,050
Financial Assets at Fair Value through Profit and Loss		172,074	(46,059)
Financial Assets at amortized cost		1,534	2,307
Financial Assets at fair value through other comprehensive income		-	226,249
Loans and Receivables from Customers		441,654	(1,481,630)
Other assets		(19,452)	(7,500)
Deposits from Banks		(69,619)	84,628
Customer Deposits		2,030,484	1,295,683
Other Liabilities		236,376	(11,488)
Interest charged		484,505	509,425
Interest paid		(30,807)	(31,426)
Net Cash flow from Operating Activities Before Tax		**2,913,386**	**499,131**
Income Tax Paid		2,077	(461)
Net Cash flow from Operating Activities		**2,915,463**	**498,670**
Cash Flows from Investing Activities			
Net purchase of Property, Equipment and Intangible Assets		(47,114)	(28,845)
Disposal of Financial Assets Valued through fair value at profit and loss and Other Comprehensive Income		50,800	656,072
Acquisition of Financial Assets Valued through fair value at Other Comprehensive Income		(419,725)	(388,780)
Dividends Received		2,044	3,293
Net Cash flow from Investing Activities		**(413,995)**	**241,740**
Cash Flows from Financing Activities			
Increase in Borrowings		373,212	744,561
Repayments of Borrowings		(430,491)	(422,027)
Lease repayments under IFRS 16		(24,419)	(18,682)
Net Cash flow from Financing Activities		**(81,698)**	**303,852**
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		-	-
Net Increase in Cash and Cash Equivalents		**2,419,770**	**1,044,262**
Cash and Cash Equivalents at the Beginning of the Year	38	**4,081,581**	**3,037,319**
Cash and Cash Equivalents at the End of the Year	38	**6,501,351**	**4,081,581**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

in HRK '000	Notes	31.12.2021	31.12.2020
ASSETS			
Cash and Amounts Due from Banks	5	6,192,515	3,684,902
Mandatory Reserve with Croatian National Bank	6	1,326,442	1,219,157
Loans and Receivables from Banks	7	289,837	379,399
Financial Assets at Fair Value through Profit and Loss	8	625,986	758,106
Financial Assets at Fair Value through Other Comprehensive Income	9	4,601,297	4,158,035
Financial Assets at Amortized Cost	10	453	1,975
Loans and Receivables from Customers	11	14,251,800	14,722,770
Assets Held for Sale	12	9,200	-
Investments in subsidiaries	13	9,761	9,761
Property, Equipment and Assets with right of use	14	248,110	258,356
Investment Property	15	60,629	65,993
Intangible Assets	16	93,319	91,039
Tax Prepayment		541	2,639
Other Assets	18	123,297	111,635
TOTAL ASSETS		**27,833,187**	**25,463,766**
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss	19	-	21
Deposits from Banks	20	28,025	96,635
Customer Deposits	21	23,422,089	21,118,434
Borrowings	22	1,396,886	1,466,641
Provisions for Liabilities and Expenses	23	88,015	116,424
Deferred Tax Liabilities, Net	17	26,282	23,483
Income tax liability		35,887	-
Other Liabilities	24	185,572	169,023
TOTAL LIABILITIES		**25,182,757**	**22,990,662**
EQUITY AND RESERVES			
Share Capital	25	1,214,775	1,214,775
Treasury shares	25	(477)	(477)
Reserves for treasury shares	25	4,477	4,477
Statutory Reserve	25	40,010	30,907
Other Reserves	25	657,992	576,064
Fair Value Reserve	25	212,651	242,231
Revaluation Reserve	25	27,543	22,744
Retained Earnings	25	493,459	382,384
TOTAL EQUITY AND RESERVES		**2,650,430**	**2,473,104**
TOTAL LIABILITIES, EQUITY AND RESERVES		**27,833,187**	**25,463,766**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

	Notes	2021 HRK '000	2020 HRK '000
Interests and Similar Income	26	556,257	585,564
Interests and Similar Expense	27	(32,146)	(48,229)
Net Interest Income		**524,111**	**537,335**
Fees and Commissions Income	28	482,976	450,156
Fees and Commissions Expense	29	(290,100)	(273,889)
Net Fees and Commissions Income		**192,877**	**176,267**
Net (Losses) / Gains from Financial Instruments at Fair Value through Profit and Loss	30	25,694	(16,369)
Gains from Financial Instruments at Fair Value through Other Comprehensive Income	31a	-	35,036
Net Gains from Dealing in Foreign Currencies	31b	57,476	54,812
Other Operating Income	32	21,053	12,016
Trading and Other Income		**104,223**	**85,496**
Operating Income		**821,211**	**799,097**
General and Administrative Expenses	33	(442,399)	(433,877)
Depreciation and Amortization	14,15,16	(67,020)	(75,816)
Impairment Losses on Loans and Receivables from Customers and Other Assets	34	(65,810)	(121,364)
Provisions for Liabilities and Expenses	23	(307)	58,910
Operating expenses		**(575,536)**	**(572,147)**
PROFIT BEFORE TAX		**245,675**	**226,950**
Income Tax Expense	35	(43,568)	(44,888)
PROFIT FOR THE YEAR		**202,107**	**182,062**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

	2021	2020
	HRK '000	**HRK '000**
Profit for the Year	**202,107**	**182,062**
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	6,411	(7,533)
Equity instruments in assets carried at other comprehensive income - net change in fair value	(1,533)	(6,402)
Change in actuarial losses	(3,219)	1,826
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	(1,612)	1,509
	27	**(10,600)**
Items that may be reclassified subsequently to profit or loss:		
Unrealized loss from Assets Valued through Other Comprehensive Income	(31,302)	(56,213)
Sale of Financial Assets Valued through Other Comprehensive Income	-	(32,521)
Income tax that may be reclassified subsequently	6,493	16,796
	(24,809)	**(71,938)**
Other Comprehensive Loss for the Year	**(24,782)**	**(82,538)**
Total Comprehensive Income for the Year	**177,326**	**99,524**

	2021	2020
	HRK '000	**HRK '000**
Profit for the Year attributable to:	**202,107**	**182,062**
The Bank's Owners	202,107	182,062

Earnings per share	***99.86 kn***	***89.96 kn***
From active and discontinued parts of Business:		
Basic (in HRK per share)	99.86 kn	89.96 kn
Diluted (in HRK per share)	99.86 kn	89.96 kn

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

Bank	Share Capital HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other Reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Balance at 1 January 2020 (as previously reported)	**1,214,775**	**(477)**	**4,477**	**535,084**	**318,746**	**659**	**296,947**	**2,370,212**
Corrected	**-**	**-**	**-**	**-**	**-**	**28,108**	**(24,739)**	**3,368**
Balance at 1 January 2020	**1,214,775**	**(477)**	**4,477**	**535,084**	**318,746**	**28,767**	**272,208**	**2,373,580**
Revaluation Reserve	-	-	-	-	-	(7,533)	-	**(7,533)**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	(6,402)	-	-	**(6,402)**
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	(56,213)	-	-	**(56,213)**
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	(32,521)	-	-	**(32,521)**
Change in actuarial gains/losses	-	-	-	-	1,826	-	-	**1,826**
Deferred Tax	-	-	-	-	16,796	1,509	-	**18,305**
Net profit for 2020	-	-	-	-	-	-	182,062	**182,062**
Total Comprehensive Income for 2020	**-**	**-**	**-**	**-**	**(76,514)**	**(6,024)**	**182,062**	**99,524**
Distribution of 2019 Profit								
- Transfer to Statutory and Other Reserves	-	-	-	71,887	-	-	(71,887)	**-**
Balance at 31 December 2020	**1,214,775**	**(477)**	**4,477**	**606,971**	**242,231**	**22,744**	**382,384**	**2,473,104**
Balance at 1 January 2021	**1,214,775**	**(477)**	**4,477**	**606,971**	**242,231**	**22,744**	**382,384**	**2,473,104**
Revaluation Reserve	-	-	-	-	-	6,411	-	**6,411**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	(1,553)	-	-	**(1,553)**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	(31,302)	-	-	**(31,302)**
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	**-**
Change in actuarial gains/losses	-	-	-	-	(3,219)	-	-	**(3,219)**
Deferred Tax	-	-	-	-	6,493	(1,612)	-	**4,882**
Net profit for 2021	-	-	-	-	-	-	202,107	**202,107**
Total Comprehensive Income for 2021	**-**	**-**	**-**	**-**	**(29,580)**	**4,799**	**202,107**	**177,326**
Distribution of 2020 Profit								
- Transfer to Statutory Reserves and other reserves	-	-	-	91,031	-	-	(91,031)	**-**
Balance as at 31 December 2021	**1,214,775**	**(477)**	**4,477**	**698,002**	**212,651**	**27,543**	**493,459**	**2,650,430**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

	Notes	2021 HRK '000	2020 HRK '000
Cash Flows from Operating Activities			
Profit Before Taxation		245,675	226,950
Adjusted by:			
- Depreciation and Amortization	14,15,16	67,020	75,816
- Foreign Exchange (Gains)/Losses	32	7,593	8,625
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		65,804	121,364
- (gains) / losses on provisions for liabilities and charges	23	307	(58,910)
- Net change on Financial Assets at Fair Value	30	(83,170)	(82,104)
- Net interest income		(524,111)	(537,335)
- Dividend income		(2,044)	(3,293)
Changes in Operating *Assets* and Liabilities			
Loans and Receivables from Banks		(4,727)	(133,106)
Mandatory CNB Reserves		(107,285)	339,050
Financial Assets at Fair Value through Profit and Loss		172,074	(46,059)
Financial Assets at amortized cost		1,534	2,307
Financial Assets at fair value through other comprehensive income		-	226,249
Loans and Receivables from Customers		441,654	(1,481,336)
Other assets		(19,526)	(7,854)
Deposits from Banks		(69,619)	84,628
Customer Deposits		2,032,140	1,297,428
Other Liabilities		236,166	(11,324)
Interest charged		484,505	509,425
Interest paid		(30,807)	(31,426)
Net Cash flow from Operating Activities Before Tax		**2,913,183**	**499,096**
Income Tax Paid		2,098	(430)
Net Cash flow from Operating Activities		**2,915,281**	**498,666**
Cash Flows from Investing Activities			
Net purchase of Property, Equipment and Intangible Assets		(47,009)	(28,845)
Disposal of Financial Assets Valued through profit and loss and through Other Comprehensive Income		50,800	656,072
Acquisition of Financial Assets Valued through Comprehensive Income		(419,725)	(388,780)
Dividends Received		2,044	3,293
Net Cash flow from Investing Activities		**(413,890)**	**241,740**
Cash Flows from Financing Activities			
Increase in Borrowings		373,287	744,561
Repayments of Borrowings		(430,567)	(422,027)
Lease repayments under IFRS 16		(24,343)	(18,682)
Net Cash flow from Financing Activities		**(81,622)**	**303,852**
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		-	-
Net Increase in Cash and Cash Equivalents		**2,419,770**	**1,044,258**
Cash and Cash Equivalents at the Beginning of the Year	38	4,081,541	**3,037,284**
Cash and Cash Equivalents at the End of the Year	38	6,501,311	**4,081,541**

The significant accounting policies and other notes on pages 113-234 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska Poštanska Bank p.l.c. Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva 4, Zagreb. The Bank is the parent of the Hrvatska Poštanska Bank Group (“the Group).

The Bank has control over following subsidiaries that make the HPB Group:

			Ownership as of 31 December 2021
	Industry	**State**	**%**
HPB Invest Ltd	Investment Funds Management	Croatia	**100.00**
HPB-nekretnine Ltd	Real Estate Agency and Construction	Croatia	**100.00**

An overview of investments in HPB subsidiaries is presented in note 13, while the consolidation basis is described in note 1, item e).

These financial statements comprise separate and consolidated financial statements of the Bank as defined in IFRS 10 "Consolidated Financial Statements" and International Accounting Standard 27 "Separate Financial Statements".

These financial statements were approved by the Management Board on March 30, 2022 for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are summarized below. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards, in the description of the Group's accounting policies, individual Standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 31 December 2021.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of Compliance

These financial reports are prepared in accordance with the legal requirements applicable to accounting for banks .in the Republic of Croatia. Legal accounting regulations for banks in the Republic of Croatia is based on International financial reporting standard (“IFRS“) and special regulations for banks adopted by Croatian National Bank (“the CNB“.

In these financial statements as at 31 December 2021 balances are not materially incompliant with balances in accordance with IFRS.

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 and the Group 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.

CNB Decision entered into force as at 1 January 2020 modified the accounting framework. In accordance with the article 21 (2) Decision on exposure classification no 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 is defined. Bank has determined that other abovementioned differences in methodology which are still existing as at 31 December 2021 do not deviate in any material respect from amounts determined in accordance with IFRS (deviation as at 31 December 2021 amounts to approximately HRK 15 million).

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation

These financial reports represent the general-purpose financial reports of the Bank and Group. Financial reports are prepared for the reporting period from 1 January 2020 to 31 December 2021.

The financial reports 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.

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, 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 and Group 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 consolidated and 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.

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those 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.

Judgments made by management in the application of applicable standards that have significant effects on financial reports and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**
   b) **Basis of preparation (continued)**

New standards, interpretations and changes to published standards

(I) New and changed International Financial Reporting Standards are referred to the reporting period

The accounting policies applied during the preparation of these financial statements are consistent with those applied when preparing the Group's and the Bank's annual consolidated and separate financial statements as at 31 December 2020, except for the adoption of new standards applicable from 1 January 2021. The Group and the Bank have not previously adopted any other standards, amendments or interpretations that have been published but are not yet in force.

First application of new amendments to existing standards in force for the current reporting period

In the current reporting period, the following amendments to existing standards are in force, published by the International Accounting Standards Board ("IASB") and adopted by the European Union:

- COVID-19 - Concessions after 30 June 2021 (Amendments to IFRS 16) - extended period of application of the exemption until 30 June 2022 (effective for annual periods beginning on or after 1 April 2021) ;
- Reference interest rate reform - Phase 2 introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is not mandatory until annual periods beginning on or after 1 January 2021.

The adoption of these amendments to existing standards did not result in significant changes in the financial statements of the Group and the Bank.

Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force

At the date of approval of these financial statements, the following amendments to existing standards issued by the IASB and adopted by the European Union have been issued but are not effective:

- Annual improvements to IFRS 2018-2020 - effective for annual periods beginning on or after 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Harmful Contracts - Contract Performance Cost): The amendments define which should be included in an entity's assessment of the harmfulness of a contract (effective for annual periods beginning on or after 1 January 2022).);
- IAS 16 Property, Plant and Equipment (revised - Pre-Interected Revenue): The amendment reduces the reduction in acquisition costs for the proceeds from the sale of the plant and equipment in operation for its intended use. Instead of the current practice, the entity will also recognize income and expenses generated by trial operation through the income statement or annual loss (effective for periods beginning on or after 1 January 2022);
- IFRS 3 "Business Combinations" - link to the conceptual reporting framework (effective for annual periods beginning on or after 1 January 2022);

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
   b) Basis of preparation (continued)

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which has not yet been decided by the European Union. the effective date listed below apply to IFRSs issued by IASB):

- IFRS 17 - Insurance Contracts
- IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities in the Short and Long Term)
- IAS 1 Presentation of Financial Statements and IFRS Statement of Practice 2 (Amendment - Disclosure of Accounting Policies)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Accounting Estimates)
- IAS 12 Income Taxes (Amendment - Deferred Tax on Assets and Liabilities Arising from a Single Transaction

The above changes are effective for annual periods beginning on or after 1 January 2022.
The Group expects that the adoption of these new standards and amendments to existing standards will not lead to significant changes in the Group's financial statements in the period of the first application of the standards.

c) Functional and Presentation Currency

The Bank’s and Group financial reports are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Changes in the presentation or classification of items within the financial statements

In 2021, the Bank made reclassifications to certain financial statements items related to historical periods. The item Provisions for employees was reclassified from Note 24. Other liabilities in Note 23. Provisions for liabilities and charges and the item Net profit / loss on foreign exchange differences from revaluation of monetary assets and liabilities was transferred from Note 32. Other operating income within Note 30. Net gains on securities at fair value through profit or loss. The effects of reclassification are shown below:

Effect on the statement of financial position as at December 31, 2021:

in HRK '000			Bank
	Balance on 31.12.2020 - before reclassification	Effects of reclassification	Balance on 31.12.2020 - after reclassification
LIABILITIES			
Provisions for liabilities and expenses			
- Provisions for employees	-	2,166	2,166
Other expenses			
- Provisions for employees	2,166	(2,166)	-
STATEMENT OF PROFIT OR LOSS			
Net gains on securities at fair value through profit or loss			
- Net foreign exchange gain / loss on revaluation of monetary assets and liabilities	-	(8,625)	(8,625)
Other operating income			
- Net foreign exchange gain / loss on revaluation of monetary assets and liabilities	(8,625)	(8,625)	-
			Group
LIABILITIES			
Provisions for liabilities and expenses			
- Provisions for employees	-	2,166	2,166
Other expenses			
- Provisions for employees	2,166	(2,166)	-
STATEMENT OF PROFIT OR LOSS			
Net gains on securities at fair value through profit or loss			
- Net foreign exchange gain / loss on revaluation of monetary assets and liabilities	-	8,625	(8,625)
Other operating income			
- Net foreign exchange gain / loss on revaluation of monetary assets and liabilities	(8,625)	(8,625)	-

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
   d) Changes in the presentation or classification of items within the financial statements (continued)

In 2020, the Bank made reclassifications to certain financial statements items related to historical periods.

More accurate distribution of investment between property and land on the location Jurišićeva 4, Zagreb in accordance with appraisals performed by independent appraiser in 2017. The distribution between land and buildings at mentioned location was recorded before 2009 in accordance with information from the assessment of values that did not have the then prescribed standards for production then. The Bank has adjusted this distribution with the appraisal from 2017 with regard to the enactment of the Law on Real Estate Valuation and the Ordinance on real estate valuation methods from 2015. The effects of the correction are shown below:

Effect on the statement of financial position as at December 31, 2019:

in HRK '000			**Bank**
	Balance on 31.12.2019 - before reclassification	**Effects of reclassification**	**Balance on 31.12.2019 - after reclassification**
ASSET			
Property and Equipment			
- Building and Land	119,453	4,108	123,561
Deferred Tax Asset, Net	3,839	5,058	8,897
LIABILITIES			
Deferred Tax Liability, Net	-	5,798	5,798
EQUITY AND RESERVE			
- Revaluation reserve	318,746	28,108	346,854
- Retained Earnings	296,947	(24,739)	272,208
STATEMENT OF PROFIT OR LOSS			
Depreciation and Amortization			
- Building and Land	3,501	847	4,348

			Group
ASSET			
Property and Equipment			
- Building and Land	131,232	4,108	135,340
Deferred Tax Asset, Net	3,839	5,058	8,897
LIABILITIES			
Deferred Tax Liability, Net	-	5,798	5,798
EQUITY AND RESERVE			
- Revaluation reserve	314,658	28,108	342,766
- Retained Earnings	307,542	(24,739)	282,803
STATEMENT OF PROFIT OR LOSS			
Depreciation and Amortization			
- Building and Land	3,415	847	4,262

e) The basis for consolidation

The financial statements are presented for the Bank and the Group. The Group's financial statements consist of the consolidated financial statements of the parent company and its subsidiaries over which it has control: HPB Nekretnine doo, Real Estate Company, HPB Invest doo, Investment Fund Management Company. All subsidiaries are 100% owned by their parent company, which are also based in Croatia.

As part of consolidation, assets, liabilities, equity, revenues and expenses between Group members are eliminated entirely.

Subsidiaries

Subsidiaries are all the companies managed by the Bank. Subsidiaries are consolidated, i.e. they cease to be consolidated from the moment the Bank acquires or loses control over them. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date on which the Bank acquired control until the date of termination of control. Income and expenses of JABA are included in the consolidated profit and loss account from the acquisition date. In separate financial reports of the Bank, investments into subsidiaries are stated at acquisition cost less impairment, if any. Accounting policies of subsidiaries are adjusted as needed to ensure accordance with the Group's policies.

Business combinations

Investment cost method is used for posting acquisitions of companies by the Group. Acquisition cost of subsidiaries is measured at fair value of given assets, equities issued and arisen, or liabilities assumed at the date of exchange. Acquired recognizable assets and liabilities and assumed contingent liabilities in business combinations are initially measured at fair value at acquisition date, no matter the amount of minority interest. Excess of acquisition costs over Group share of fair value of acquired recognizable net assets, including intangible assets, result in goodwill.

If acquisition cost is lower than fair value of net assets of the acquired subsidiary, the difference is recognized directly in the profit and loss account.

Acquisition date is defined as a date at which the acquirer gains control over the acquired.

Legal mergers

In the case of legal mergers of Group companies, the pooling method applies, the balances of the merging entity are transferred at net book values from the consolidated financial statements to the successor entity, and no adjustments to prior periods are required.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) 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 originated credit impaired financial assets. For such financial assets the entity applies to the amortized cost of financial assets on initial recognition the effective credit impaired interest rate;

(b) financial assets that is neither purchased nor originated credit impaired financial assets, but afterwards became credit impaired financial assets. For such financial assets the subject in the following reporting periods to the amortized cost of financial assets applies the effective interest rate

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 and the Group 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.

g) 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 and the Group. 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. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank and Group 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Dividend income

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

i) 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 are tested at the end of every reporting period in order to determine the existence of indicators of potential impairment. Financial assets are impaired if there is objective evidence that estimated future cash flows were impacted by one or more events after initial recognition of the financial instrument.

Objective impairment evidence may include:

- Significant financial difficulties for issuer or other contract party, or
- Contract breach, for example late payments or non-payment of principal and interest, or
- Likely bankruptcy start or financial restructuring of the debtor, or
- Disappearance of active market for concerned financial assets due to financial difficulties.

Any subsequent increase in fair value after impairment is recognized in other comprehensive income. In relation with debt securities classified at reporting date at fair value though other comprehensive income (previously available for sale), impairment can subsequently be reversed in the profit and loss account if there is evidence there exists objective evidence of increase of fair value in relation with the event that arises after recognition of impairment.

j) 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.

k) 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 P&L report. 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
   k) Foreign Currencies (continued)

The official middle exchange rate as of December 31, 2021 was: 7.517174 = 1 EUR; 6.643548 = 1 USD; 7.248263 = 1 CHF

The official middle exchange rate as of December 31, 2020 was: 7.536898 = 1 EUR; 6.139039 = 1 USD; 6.948371 = 1 CHF

l) 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 for loans granted at interest rate lower than market rates, financial guarantee-based liabilities and financial liabilities measured at FVPL are measured at amortized cost

The classification depends on the intent of the financial instruments'' acquisition. The Board determines the classification of the financial instruments at initial recognition.

Business model assessment

The Bank and the Group 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 and the Group 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 and the Group 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.

In accordance to IFRS 9, the Bank and the Group 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 and the Group 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 and the Group 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
   l) Financial Instruments (continued)
      i) Classification (continued)

• 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 and the Group manage the financial assets with the intent of generating cash flows by selling the assets. The Bank and the Group make decision based on fair value of the assets and manage it in order to realize the fair value.

Financial Markets Sector 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 Sector and Assets and Liabilities Management Office. Financial Markets Sector when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Sector 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 Sector 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.

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

As the next step of the classification process the Bank and the Group 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 and the Group 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

This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the 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.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**
   l) **Financial Instruments (continued)**
      i) **Classification (continued)**

Financial assets at amortized cost
The Bank and the Group 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 and the Group arise when the Bank and the Group approve cash instruments to customers 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.

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 cover 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 or loss, and financial assets held to maturity and available for sale, are recognized on the settlement date. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to borrowers or received from lenders.

The Bank and Group 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 and Group 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
l) Financial Instruments (continued)
ii) Recognition and Derecognition (continued)

The Bank and Group 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 and Group 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.

iv) Determination of Fair Value of Financial Instruments

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 and Group 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 and Group 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) Reclassifications

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 an entity 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 an entity 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
    l) Financial Instruments (continued)
        v) Reclassifications (continued)

If an entity 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.

If an entity 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 an entity 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.

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.

m) Specific Financial Instruments

Derivative Financial Instruments

The Bank and Group 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 and Group 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. Changes in the fair value of derivatives are included in gains less losses arising from trading with securities

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
    m) Specific Financial Instruments (continued)

Treasury Bills and Debt Securities
Treasury bills and debt securities that the Bank and Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as financial assets at fair value through other comprehensive income and are carried 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.

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 to Customers
Loans to customers are presented net of impairment losses. Purchased loans that the Bank and Group 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, except for H1 Telekom plc. which is, as assets held for sale, recorded at the lower of carrying amount and fair value.

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. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

Repurchase Agreements and Connected Transactions
The Bank and Group 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Corporate tax

Corporate tax expense represents the sum of the tax currently payable 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. 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 and Group 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 and Group 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 and Group reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

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:

	2021	2020
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.

p) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) 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 and Group 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.

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

	2021	2020
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.

r) Impairment of Non-Financial Assets

The recoverable amount of property and equipment, investment property and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

s) Non-Current Assets Held for Sale

The Bank and Group 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 the lower of carrying amount or fair market value 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 and Group occur and if there is evidence that the Bank and Group will continue in line with the plans to continue selling the same.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**
   s) **Non-Current Assets Held for Sale (continued)**

The Bank and Group 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 and Group. 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 and Group does not recognize those assets as assets held for sale.

Bank and Group 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.

t) Repossessed asset in exchange for uncollected receivables

The Bank and Group 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 and the Group, 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.

u) Provisions for Liabilities and Expenses

The Bank and Group 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.

v) 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 and the Group are 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

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**
   v) **Leases (continued)**

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Employee Benefits

Defined Pension Contributions
The Bank and Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and Group 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 and Group 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.

x) 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.

y) Contingencies and Commitments

In the ordinary course of business, the Bank and Group 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 and Group's report of financial position if and when they become payable.

z) Funds Managed for and on Behalf of Third Parties

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

The Bank's subsidiary also manages six open-end funds with public offering (short-term bond: HPB Cash Fund, HPB Eurocash Fund, bond: HPB Bond Fund, mixed: HPB Global Fund, HPB Bond Fund Plus and equity fund: HPB Equity Fund).

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
   z) Funds Managed for and on Behalf of Third Parties (continued)

Investment funds assets that is managed by the Bank is not part of consolidated reports of the Group.

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

aa) Segment reporting

A segment is a distinguishable component of the Bank and Group that is engaged either in providing products or services (business segment) which achieves economic benefits or costs, including the transactions with other parts of the Bank and Group. The Group did not use internal transfer prices in determining the success of the segments.

The Group identified four major segments: banking with legal entities - divided into two sub-sectors (business with large companies and the public sector, small and medium-sized businesses), banking with physical persons, financial markets (including treasury and investment banking with custody) and direct banking. The description of business segments and their financial review is presented in Note 4 to these financial statements.

Group's operations, its total assets as well as the majority of its clients are based in Croatia.

2. RISK MANAGEMENT

This note details the Bank's and Group risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, interest rate risk in the Bank's non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Bank and Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Bank and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure.

The responsibility for determining the framework of the Bank's and Group risk management lies with the Bank's Management Board which has delegated the risk management tasks to the Assets and Liabilities Management Committee, Credit Committee and Operational Risk Management Committee.

2.1. Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Bank's credit risk exposure to derivative financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the report of financial position. Notional amounts disclosed in the notes to the financial reports do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Bank's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Bank is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held to maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 39.

Credit risk management comprises assessment of placements' credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)

2.1.1. Classification of Exposures in Risk Stages

The Bank classifies placements into risk stages depending on the expected loss in the amount of the principal of the placement, and in accordance with the Decision on Classification of Exposures into Risk Stages and the manner of determining credit losses.

All placements that the Bank estimate are not in the default status are classified into risk stage A. Moreover, in accordance with IFRS 9, the Bank places into sub-stage A-1 the placements for which it is determined that after initial recognition the credit risk of each customer's exposure had not significantly increased, and into sub-stage A-2 the placements for which it is determined that after initial recognition the credit risk of customer's exposure had significantly increased. The Bank for these exposures carries out corresponding impairments and make provisions of exposure in the amount equal to expected credit losses in a 12-month period for sub-stage A-1, that is expected credit losses during lifetime for sub-stage A-2. Placements that the Bank estimates are partly recoverable are classified into risk stage B, depending on the loss percentage: into sub-stage B1 (loss is estimated at below 30% of nominal carrying value of the placement), into sub-stage B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and into sub-stage B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk stage C.

2.1.2. Loans Impairment Policy

The impairment estimation of the Bank is based on the International Financial Reporting Standard 9 (IFRS 9), whereby the Bank analyzes quantitative and qualitative information.

Credit risk analysis is comprehensive, and it is based on multiple indicators, i.e. is a certain indicator important and could its importance compare with other indicators depending on the type of product, financial assets' features, customer etc. However, some indicators are impossible to determine on individual instrument level and in such case the Bank estimates the indicators for certain parts of financial instruments portfolio.

Furthermore, credit quality analysis predicts for every reporting date the comparison of credit quality of financial instrument at the moment of recognition and at the moment of initial recognition or acquisition, all with the intention of determining if the criteria for classification into "Stage 2" were met.

The Bank differentiates the criteria in order to mark significant increase of credit risk in accordance with 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.

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Placement Impairment Policy (continued)

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-a.

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.

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 1,000,000.00.

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.

Individual Assessment

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:

- debtors' creditworthiness,
- debtors' 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. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Placement Impairment Policy (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.

Portfolio Based Assessment

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. The following tables present the classification of exposures into risk categories and the allocation of the corresponding impairment losses as a percentage of gross principal.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Placement Impairment Policy (continued)

Group

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortized cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2021										
Stage 1	78.35	8.76	99.83	66.76	-	-	100.00	-	51.52	1.86
Stage 2	8.8	7.00	-	-	100.00	100.00	-	-	2.92	-
Stage 3	13.56	84.24	0.17	33.24	-	-	-	-	45.56	98.14

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortized cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2020										
Stage 1	82.27	10.88	99.87	65.76	56.96	22.74	100.00	-	51.17	1.46
Stage 2	4.68	5.09	-	-	-	-	-	-	3.65	-
Stage 3	13.05	84.03	0.13	34.24	43.04	77.26	-	-	45.19	98.54

Bank

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortized cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2021										
Stage 1	78.35	8.76	99.83	66.76	-	-	100.00	-	48.9	1.83
Stage 2	8.08	7.00	-	-	100.00	100.00	-	-	3.08	-
Stage 3	13.56	84.24	0.17	33.24	-	-	-	-	48.02	98.17

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortized cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2020										
Stage 1	81.92	8.53	99.8	59.01	57.89	34.63	100.00	-	47.9	-
Stage 2	4.82	4.36	-	-	9.38	15.64	-	-	5.26	-
Stage 3	13.05	84.03	0.13	34.24	43.04	77.26	-	-	47.21	98.54

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Placement Impairment Policy (continued)

Maximum Exposure to Credit Risk before Consideration of Collateral
The table below shows the maximum exposure of the Group and Bank to credit risk as at December 31, 2021 and December 31, 2020, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum Exposure		Group		Bank	
	Note	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Giro Account with the CNB and Other Banks	5	6,192,555	3,684,942	6,192,515	3,684,902
Mandatory Reserve with the CNB	6	1,326,442	1,219,157	1,326,442	1,219,157
Loans to and Receivables from Banks	7	289,837	379,399	289,837	379,399
Investments measured at amortized cost	10	453	1,975	453	1,975
Loans and Receivables from Customers	11	14,251,800	14,722,770	14,251,800	14,722,770
Fees Receivable	18	11,840	11,995	10,560	10,937
Off-Balance Sheet **Exposure**	39	**2,676,993**	**2,330,948**	**2,676,993**	**2,330,948**
Undisbursed Lending Commitments		2,176,448	1,932,285	2,176,448	1,932,285
Guarantees		490,658	388,819	490,658	388,819
Other Contingent Liabilities		9,888	9,844	9,888	9,844
Total Credit Exp**osure**		**24,749,920**	**22,351,186**	**24,748,600**	**22,350,087**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk

Group

2021	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Stage 1	12,383,527	290,841	-	5,680,727	11,056
Stage 2	1,277,553	-	459	-	627
Stage 3	2,143,783	500	-	-	9,776
Total Gross loans	**15,804,863**	**291,341**	**459**	**5,680,727**	**21,459**
Expected losses	(1,308,291)	(500)	-	-	(9,440)
Portfolio based expected losses	(244,773)	(1,004)	(5)	-	(179)
Total expected losses	**(1,553,064)**	**(1,504)**	**(5)**	**-**	**(9,619)**
Total	**14,251,800**	**289,837**	**453**	**5,680,727**	**11,840**

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2021 for the Group and the Bank amounts to HRK 153,660 thousand.

2020	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Stage 1	13,412,293	380,360	1,191	3,465,642	10,965
Stage 2	763,210	-	-	-	782
Stage 3	2,128,229	500	900	-	9,684
Total Gross loans	**16,303,732**	**380,860**	**2,092**	**3,465,642**	**21,431**
Expected losses	(1,328,426)	(500)	(90)	-	(9,296)
Portfolio based expected losses	(252,537)	(960)	(26)	-	(140)
Total expected losses	**(1,580,962)**	**(1,460)**	**(116)**	**-**	**(9,436)**
Total	**14,722,770**	**379,399**	**1,975**	**3,465,642**	**11,995**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

Bank

2021	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Stage 1	12,383,527	290,841	-	5,680,727	9,955
Stage 2	1,277,553	-	459	-	627
Stage 3	2,143,783	500	-	-	9,776
Total Gross loans	**15,804,863**	**291,341**	**459**	**5,680,727**	**20,358**
Expected losses	(1,308,291)	(500)	-	-	(9,619)
Portfolio based expected losses	(244,773)	(1,004)	(5)	-	(179)
Total expected losses	**(1,553,064)**	**(1,504)**	**(5)**	**-**	**(9,798)**
Total	**14,251,800**	**289,837**	**453**	**5,680,727**	**10,560**

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2021 for the Group and the Bank amounts to HRK 153,660 thousand.

2020	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Stage 1	13,412,293	380,360	1,191	3,465,642	10,047
Stage 2	763,210	-	-	-	782
Stage 3	2,128,229	500	900	-	9,684
Total Gross loans	**16,303,732**	**380,860**	**2,092**	**3,465,642**	**20,513**
Expected losses	(1,328,426)	(500)	(90)	-	(9,436)
Portfolio based expected losses	(252,537)	(960)	(26)	-	(140)
Total expected losses	**(1,580,962)**	**(1,460)**	**(116)**	**-**	**(9,576)**
Total	**14,722,770**	**379,399**	**1,975**	**3,465,642**	**10,937**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG-BICRO (Croatian Agency for SMEs, Innovation and Investments) and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice, current market trends as well as the Decision on Classifying Placements and Off-Balance Sheet Liabilities of Credit Institutions. Collateral value in the table below relates to recorded collateral value based on valuation made by certified appraisers without adjustments for discount factors but excluding burdens listed before the Bank and limiting to the amount of exposure which it collateralizes.

Bank

Asset Type	Collateral Type	2021 HRK '000	2020 HRK '000
Loans to and Receivables from Customers			
	Deposits	76,668	87,493
	Debt Securities	-	28,264
	Guarantees and Warranties of the Republic of Croatia	2,288,253	2,035,886
	Real Estate –Non-Business Purposes	4,031,315	3,643,135
	Real Estate – Business Purposes	1,534,826	1,779,371
	Movable Property (equipment, supplies, vehicles, ships etc.)	201,549	212,055
	Equity Investments (Single-Stocks and Funds)	77,352	101,454
	Land	252,880	233,352
Total		**8,462,843**	**8,121,010**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

Below is presented an overview of due and not yet due receivables aging structure based on days-past-due, with regard to the principal of the loans:

Group HRK '000	Total	Undue Exposure to Credit Risk	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61-90	Days Past Due 91-180	Days Past Due 180+
31 December 2021							
Government	3,432,439	3,428,402	4,038	-	-	-	-
Other Corporate Clients	3,948,535	3,087,858	188,064	131	-	1,498	670,984
Retail	8,423,889	7,823,825	7,185	2,444	2,369	7,949	580,118
Total	**15,804,864**	**14,340,086**	**199,287**	**2,574**	**2,369**	**9,447**	**1,251,101**
31 December 2020							
Government	4,003,232	3,997,277	5,946	-	-	-	9
Other Corporate Clients	4,322,249	3,534,704	24,191	4,343	78	1,524	757,409
Retail	7,978,251	7,439,481	9,413	4,041	2,809	4,567	517,940
Total	**16,303,732**	**14,971,462**	**39,550**	**8,385**	**2,887**	**6,091**	**1,275,358**

Bank HRK '000	Total	Undue Exposure to Credit Risk	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61-90	Days Past Due 91-180	Days Past Due 180+
31 December 2021							
Government	3,432,439	3,428,402	4,038	-	-	-	-
Other Corporate Clients	3,948,535	3,087,858	188,064	131	-	1,498	670,984
Retail	8,423,889	7,823,825	7,185	2,444	2,369	7,949	580,118
Total	**15,804,864**	**14,340,086**	**199,287**	**2,574**	**2,369**	**9,447**	**1,251,101**
31 December 2020							
Government	4,003,232	3,997,277	5,946	-	-	-	9
Other Corporate Clients	4,322,249	3,534,704	24,191	4,343	78	1,524	757,409
Retail	7,978,251	7,439,481	9,413	4,041	2,809	4,567	517,940
Total	**16,303,732**	**14,971,462**	**39,550**	**8,385**	**2,887**	**6,091**	**1,275,358**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

The gross amount of fully recoverable placements, where a payment delay of more than 90 days has not been established and no impairment allowance is made on an individual basis at the date of preparation of the financial statements and the coverage of the relevant collateral at its fair value, expressed as a percentage of net loans is as follows:

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Group 2021 HRK '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
Gross Placements	3,376,744	1,844,432	4,090,787	44,432	106,088	2,921,044	**12,383,527**	290,841	-	5,680,727	11,056
Expected Portfolio Based Losses	(37,108)	(20,269)	(44,955)	(488)	(1,166)	(32,100)	**(136,085)**	(1,004)	-	-	(179)
Net Placements	**3,339,636**	**1,824,163**	**4,045,832**	**43,944**	**104,922**	**2,888,944**	**12,247,442**	**289,837**	**-**	**5,680,727**	**10,877**
Collateral Value	1,346,725	1,328,347	3,695,384	41,963	88	150,146	**6,562,653**	-	-	-	-
Collateral Coverage (%)	**40.33**	**72.82**	**91.34**	**95.49**	**0.08**	**5.20**	**53.58**	**-**	**-**	**-**	**-**

Group 2020 HRK '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
Gross Placements	3,900,645	2,438,584	3,636,781	36,589	115,622	3,284,072	**13,412,293**	380,360	1,191	3,465,642	10,965
Expected Portfolio Based Losses	(50,029)	(31,277)	(46,645)	(469)	(1,483)	(42,121)	**(172,023)**	(960)	(26)	-	(140)
Net Placements	**3,850,616**	**2,407,307**	**3,590,136**	**36,120**	**114,139**	**3,241,951**	**13,240,270**	**379,399**	**1,165**	**3,465,642**	**10,825**
Collateral Value	1,415,781	1,616,974	3,301,924	35,643	31	237,156	**6,607,509**	-	-	-	-
Collateral Coverage (%)	**36.77**	**67.17**	**91.97**	**98.68**	**0.03**	**7.32**	**49.90**	**-**	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Bank **2020** **HRK '000**	**Government Units**	**Companies**	**Housing Loans**	**Mortgage Loans**	**Credit Cards**	**Other Loans**	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortized cost**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Placements	3,376,744	1,844,432	4,090,787	44,432	106,088	2,921,044	**12,383,527**	290,841	-	5,680,727	9,955
Expected Portfolio Based Losses	(37,108)	(20,269)	(44,955)	(488)	(1,166)	(32,100)	**(136,085)**	(1,004)	-	-	(179)
Net Placements	**3,339,636**	**1,824,163**	**4,045,832**	**43,944**	**104,922**	**2,888,944**	**12,247,442**	**289,837**	**-**	**5,680,727**	**9,776**
Collateral Value	1,346,725	1,328,347	3,695,384	41,963	88	150,146	**6,562,653**	-	-	-	-
Collateral Coverage (%)	**40.33**	**72.82**	**91.34**	**95.49**	**-**	**5.20**	**53.58**	**-**	**-**	**-**	**-**

Bank **2020** **HRK '000**	**Government Units**	**Companies**	**Housing Loans**	**Mortgage Loans**	**Credit Cards**	**Other Loans**	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortized cost**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Placements	3,900,645	2,438,584	3,636,781	36,589	115,622	3,284,072	**13,412,293**	380,360	1,191	3,465,642	10,047
Expected Portfolio Based Losses	(50,029)	(31,277)	(46,645)	(469)	(1,483)	(42,121)	**(172,023)**	(960)	(26)	-	(140)
Net Placements	**3,850,616**	**2,407,307**	**3,590,136**	**36,120**	**114,139**	**3,241,951**	**13,240,270**	**379,399**	**1,165**	**3,465,642**	**9,907**
Collateral Value	1,415,781	1,616,974	3,301,924	35,643	31	237,156	**6,607,509**	-	-	-	-
Collateral Coverage (%)	**36.77**	**67.17**	**91.97**	**98.68**	**-**	**7.32**	**49.90**	**-**	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

(b) Stage 2 – lifetime expected credit losses (risk category A2)

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2021 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Held-to-maturity financial assets	Fee receivables
Gross Loans	5,931	905,760	117,085	3,267	8,323	237,187	**1,277,553**	459	627
Total Portfolio Based Losses	(505)	(77,057)	(9,961)	(278)	(708)	(20,179)	**(108,687)**	(5)	-
Net Loans	**5,426**	**828,703**	**107,124**	**2,989**	**7,615**	**217,008**	**1,168,865**	**453**	**627**
Collateral Value	-	718,811	114,152	3,238	-	21,569	**857,770**	-	-
Collateral Coverage (%)	**-**	**86.74**	**106.56**	**108.33**	**-**	**9.94**	**73.38**	**-**	**-**

Group 2020 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Fee receivables
Gross Loans	9,861	480,302	55,684	1,102	3,257	213,004	**763,210**	782
Total Portfolio Based Losses	(1,040)	(50,669)	(5,874)	(116)	(344)	(22,470)	**(80,513)**	-
Net Loans	**8,821**	**429,633**	**49,810**	**986**	**2,913**	**190,534**	**682,697**	**782**
Collateral Value	-	396,591	53,390	1,031	-	46,924	**497,936**	-
Collateral Coverage (%)	**-**	**92.31**	**107.19**	**104.59**	**-**	**24.63**	**72.94**	**-**

Bank 2021 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Held-to-maturity financial assets	Fee receivables
Gross Loans	5,931	905,760	117,085	3,267	8,323	237,187	**1,277,553**	459	627
Total Portfolio Based Losses	(505)	(77,057)	(9,961)	(278)	(708)	(20,179)	**(108,687)**	(5)	-
Net Loans	**5,426**	**828,703**	**107,124**	**2,989**	**7,615**	**217,008**	**1,168,865**	**453**	**627**
Collateral Value	-	718,811	114,152	3,238	-	21,569	**857,770**	-	-
Collateral Coverage (%)	**-**	**86.74**	**106.56**	**108.33**	**-**	**9.94**	**73.38**	**-**	**-**

Bank 2020 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Fee receivables
Gross Loans	9,861	480,302	55,684	1,102	3,257	213,004	**763,210**	782
Total Portfolio Based Losses	(1,040)	(50,669)	(5,874)	(116)	(344)	(22,470)	**(80,513)**	-
Net Loans	**8,821**	**429,633**	**49,810**	**986**	**2,913**	**190,534**	**682,697**	**782**
Collateral Value	-	396,591	53,390	1,031	-	46,924	**497,936**	-
Collateral Coverage (%)	**-**	**92.31**	**107.19**	**104.59**	**-**	**24.63**	**72.94**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

(b) Stage 3 – default status (risk categories B and C)

Tables below show the amount of loans with impairments, both individual and portfolio based, as well as coverage of these placements by corresponding collateral at fair value in percentage and in relation to net placements as following:

Group
2021
HRK '000

	Loans to Customers								
	Companies	**Housing Loans**	**Mortgage Loans**	**Credit Cards**	**Other Loans**	**Total**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortized cost**	**Fees Receivable**
Gross Loans	1,346,277	72,122	79,343	20,948	625,094	**2,143,784**	500	-	9,776
Total Expected Losses	(724,156)	(18,258)	(71,481)	(15,806)	(478,590)	**(1,308,291)**	(500)	-	(9,440)
Net Loans	**622,121**	**53,864**	**7,862**	**5,142**	**146,504**	**835,493**	**-**	-	**336**
Collateral Value	908,143	65,943	34,131	-	34,203	**1,042,420**	-	-	-
Collateral Coverage (%)	**145.98**	**122.42**	**434.13**	**-**	**23.35**	**124.77**	**-**	**-**	**-**

Group
2020
HRK '000

	Loans to Customers								
	Companies	**Housing Loans**	**Mortgage Loans**	**Credit Cards**	**Other Loans**	**Total**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortized cost**	**Fees Receivable**
Gross Loans	1,461,779	51,656	81,982	18,815	513,997	**2,128,229**	500	900	9,684
Total Expected Losses	(815,137)	(16,719)	(71,532)	(15,149)	(409,888)	**(1,328,425)**	(500)	(90)	(9,296)
Net Loans	**646,642**	**34,937**	**10,450**	**3,666**	**104,109**	**799,804**	**-**	**810**	**388**
Collateral Value	897,338	45,574	36,489	-	36,166	**1,015,567**	-	-	-
Collateral Coverage (%)	**138.77**	**130.45**	**349.18**	**-**	**34.74**	**126.98**	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

(c) Stage 3 – default status (risk categories B and C)

Bank
2021
HRK '000

	Loans to Customers								
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Fees Receivable
Gross Loans	1,346,277	72,122	79,343	20,948	625,094	**2,143,784**	500	-	9,776
Total Expected Losses	(724,156)	(18,258)	(71,481)	(15,806)	(478,590)	**(1,308,291)**	(500)	-	(9,619)
Net Loans	**622,121**	**53,864**	**7,862**	**5,142**	**146,504**	**835,493**	**-**	-	**157**
Collateral Value	908,143	65,943	34,131	-	34,203	**1,042,420**	-	-	-
Collateral Coverage (%)	**145.98**	**122.42**	**434.13**	**-**	**23.35**	**124.77**	**-**	-	-

Bank
2020
HRK '000

	Loans to Customers								
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Fees Receivable
Gross Loans	1,461,779	51,656	81,982	18,815	513,997	**2,128,229**	500	900	9,684
Total Expected Losses	(815,137)	(16,719)	(71,532)	(15,149)	(409,888)	**(1,328,425)**	(500)	(90)	(9,436)
Net Loans	**646,642**	**34,937**	**10,450**	**3,666**	**104,109**	**799,804**	**-**	**810**	**248**
Collateral Value	897,338	45,574	36,489	-	36,166	**1,015,567**	-	-	-
Collateral Coverage (%)	**138.77**	**130.45**	**349.18**	**-**	**34.74**	**126.98**	-	-	-

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Assets Exposed to Credit Risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

Bank	2021 HRK '000	2020 HRK '000
Gross Loans to Customers		
Corporate	536,190	436,366
Retail	75,534	98,222
Total	**611,724**	**534,588**

2.1.4. Credit Risk Concentration by Industry

An analysis of the concentration of credit risk by industry is presented in the table below:

Group	2021 HRK '000	2020 HRK '000
Public administration, Defense and Compulsory Social Security	1,860,752	2,407,505
Manufacturing	1,007,873	1,106,070
Construction	1,603,574	1,779,478
Transportation and Storage	549,272	587,731
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	484,705	641,535
Professional, Scientific and Technical Activities	79,773	173,641
Accommodation and Food Service Activities	527,006	512,851
Agriculture, Forestry and Fishing	298,405	179,206
Information and Communications	144,897	154,581
Electricity and Gas Supply and Air-Conditioning	358,552	273,591
Arts, Entertainment and Recreation	63,418	78,080
Administrative and Auxiliary Services	77,050	55,100
Other	301,142	339,047
Total Gross Corporate Loans	**7,356,419**	**8,288,416**
Gross Retail Loans	**8,323,882**	**7,888,303**
Collateralized	**8,462,843**	**8,121,012**
Accrued Interests	124,562	127,013
Provision for Impairment Losses	(1,553,064)	(1,580,962)
Total	**14,251,800**	**14,722,770**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.4. Credit Risk Concentration by Industry (continued)

Bank	2021 HRK '000	2020 HRK '000
Public administration, Defense and Compulsory Social Security	1,860,752	2,407,505
Manufacturing	1,007,873	1,106,070
Construction	1,603,574	1,779,478
Transportation and Storage	549,272	587,731
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	484,705	641,535
Professional, Scientific and Technical Activities	79,773	173,641
Accommodation and Food Service Activities	527,006	512,851
Agriculture, Forestry and Fishing	298,405	179,206
Information and Communications	144,897	154,581
Electricity and Gas Supply and Air-Conditioning	358,552	273,591
Arts, Entertainment and Recreation	63,418	78,080
Administrative and Auxiliary Services	77,050	55,100
Other	301,142	339,047
Total Gross Corporate Loans	**7,356,419**	**8,288,416**
Gross Retail Loans	**8,323,882**	**7,888,303**
Collateralized	**8,462,843**	**8,121,012**
Accrued Interests	124,562	127,013
Provision for Impairment Losses	(1,553,064)	(1,580,962)
Total	**14,251,800**	**14,722,770**

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk

Liquidity risk arises in the general funding of the Bank’s activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are as follows:

- liquidity funding risk (structural liquidity risk): risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Bank manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual.

The system for managing liquidity risk, in line with defined polices, includes:

- risk profile, estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits during defined periods including intradaily,
- ensure liquidity risk management in HRK and significant foreign currencies in the Bank's book
- ensure that an adequate level of liquidity buffers is maintained
- include appropriate allocation mechanisms.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- maintenance, planning and projecting coverage coefficient (LCR) within prescribed limit

Structural liquidity management is performed through:

- maintaining positions in accordance with liquidity risk exposure limits,
- maintaining of Net Stable Funding Ratio (NSFR) in accordance with defined limits;
- diversification of sources of funding.

Strategic Risks and Risk Control Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.

The Bank submits to the Croatian National Bank a monthly regulatory report on liquidity coverage. The prescribed quantitative requirements include: the amount of liquid assets (C72), the amount of potential outflows (C73), the amount of potential inflows (C74) and the calculation of liquidity coverage (C76).

The Bank maintained all positions for which the prescribed regulatory limits were set within 2021 within the prescribed regulatory limits. The Bank maintains the required reserve and the minimum required foreign currency receivables within the limits prescribed by the Decision on the required reserve and the Decision on the minimum required foreign currency receivables.

The Financial Markets Sector prepares a monthly inflow and outflow plan for Board meetings.

Responsibility for liquidity risk management rests with the Bank's Management Board. The Bank's Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank prescribes and conducts stress tests of its liquidity. The Strategic Risk and Risk Control Division conducts stress tests taking into account Bank-specific factors (internal factors) and market factors (external factors). Stress resilience tests are conducted over the liquidity coverage ratio. The ratio of net stable sources of financing, which is an indicator of the Bank's structural liquidity, as at 31 December 2021 is 174.4% (2020: 151%). At the same time, the liquidity coverage ratio (LCR) is 183% (2020: 158%).

2.2.1. Maturity Analysis

A maturity analysis of assets and liabilities, as well as equity, of the Bank and Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank's and Group's trading intention, as at December 31, 2021 and December 31, 2020, is presented in the tables below.

Although significant negligent maturity mismatches have been reported in the first analyzed periods, the Bank does not expect the outflow of deposits in contractual terms in accordance with its own historical experience and knowledge of the customers.

Non-maturity assets that relate to investments in subsidiaries, real estate and equipment, investment property and intangible assets are presented in the maturity category over 3 years. While financial assets related to investments in stocks and mutual funds, also without maturity, are presented in the maturity category up to 30 days.

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Group **2021** **HRK '000**	**0-30 Days**	**31-90 Days**	**91-360 Days**	**1 to 3 Years**	**Over 3 Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	6,192,556	-	-	-	-	**6,192,556**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	-	**1,326,442**
Loans to and Receivables from Banks	156,631	132,877	-	99	230	**289,837**
Financial Assets at Fair Value through P&L	621,352	4,634	-	-	-	**625,986**
Financial Assets at FV through OCI	-	878,269	417,722	558,528	2,746,778	**4,601,297**
Financial Assets at Amortized Cost	294	150	9	-	-	**453**
Loans to and Receivables from Customers	1,081,679	328,729	1,431,591	3,576,777	7,833,024	**14,251,800**
Assets held for sale	9,200	-	-	-	-	**9,200**
Properties, Equipment and Assets with the right of use	-	-	-	-	248,636	**248,636**
Investment Properties	-	-	-	-	67,642	**67,642**
Intangible Assets	-	-	-	-	93,381	**93,381**
Tax Prepayment	-	-	637	-	-	**637**
Other Assets	105,833	6,214	12,606	2	-	**124,655**
TOTAL ASSETS	**9,493,987**	**1,350,873**	**1,862,565**	**4,135,406**	**10,989,691**	**27,832,522**
LIABILITIES						
Financial Liabilities at FV through P&L	-	-	-	-	-	**-**
Deposits from Banks	28,017	8	-	-	-	**28,025**
Customer Deposits	19,300,178	1,049,245	2,353,789	619,448	90,184	**23,412,844**
Borrowings	2,544	31,706	107,390	263,529	991,717	**1,396,886**
Provisions for Liabilities and Expenses	36,994	797	15,470	25,657	9,162	**88,080**
Deferred tax liabilities, net	-	-	-	-	26,282	**26,282**
Tax Liabilities	-	-	-	-	35,887	**35,887**
Other Liabilities	44,636	35,419	24,414	42,524	40,778	**187,771**
Total Equity and reserves	-	-	-	-	2,656,747	**2,656,747**
TOTAL LIABILITIES, EQUITY AND RESERVES	**19,412,369**	**1,117,175**	**2,501,063**	**951,158**	**3,850,757**	**27,832,522**
MATURITY GAP	**(9,918,382)**	**233,698**	**(638,499)**	**3,184,248**	**7,138,934**	**-**
CUMMULATIVE MATURITY GAP	**(9,918,382)**	**(9,684,684)**	**(10,323,183)**	**(7,138,935)**	**-**	**-**
OFF-BALANCE	***446,292***	***495,720***	***1,064,089***	***170,165***	***758,481***	***2,934,747***
Derivatives	*-*	*257,754*	*-*	*-*	*-*	***257,754***
Classic off-balance items	*446,292*	*237,966*	*1,064,089*	*170,165*	*758,481*	***2,676,993***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Group **2020.** **HRK '000**	**0-30 Days**	**31-90 Days**	**91-360 Days**	**1 to 3 Years**	**Over 3 Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	3,684,942	-	-	-	-	**3,684,942**
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	-	**1,219,157**
Loans to and Receivables from Banks	379,281	18	-	50	50	**379,399**
Financial Assets at Fair Value through P&L	751,142	6,964	-	-	-	**758,106**
Financial Assets at FV through OCI	-	30,426	681,070	1,251,452	2,195,087	**4,158,035**
Financial Assets at Amortized Cost	784	1,191	-	-	-	**1,975**
Loans to and Receivables from Customers	1,209,165	457,848	2,116,029	2,777,147	8,162,581	**14,722,770**
Properties, Equipment and Assets with the right of use	-	-	-	-	259,000	**259,000**
Investment Properties	-	-	-	-	73,430	**73,430**
Intangible Assets	-	-	-	-	91,231	**91,231**
Tax Prepayment	-	-	2,714	-	-	**2,714**
Other Assets	101,584	5,894	5,435	72	34	**113,019**
TOTAL ASSETS	**7,346,055**	**502,341**	**2,805,248**	**4,028,721**	**10,781,413**	**25,463,778**
LIABILITIES						
Financial Liabilities at FV through P&L	-	21	-	-	-	**21**
Deposits from Banks	21,258	75,377	-	-	-	**96,635**
Customer Deposits	16,142,920	1,144,851	2,544,270	1,049,085	229,720	**21,110,846**
Borrowings	1,094	30,696	112,688	274,219	1,047,944	**1,466,641**
Provisions for Liabilities and Expenses	39,550	1,386	26,598	32,011	14,713	**116,424**
Deferred tax liabilities, net	-	-	-	-	23,483	**23,483**
Tax Liabilities	-	-	-	-	-	**-**
Other Liabilities	34,642	25,093	27,922	58,393	26,941	**170,498**
Total Equity and reserves	-	-	-	-	2,478,902	**2,478,902**
TOTAL LIABILITIES, EQUITY AND RESERVES	**16,239,460**	**1,277,424**	**2,711,482**	**1,413,708**	**3,821,703**	**25,463,778**
MATURITY GAP	**(8,893,405)**	**(775,083)**	**93,766**	**2,615,013**	**6,959,711**	**-**
CUMMULATIVE MATURITY GAP	**(8,893,405)**	**(9,668,488)**	**(9,574,722)**	**(6,959,709)**	**-**	**-**
OFF-BALANCE	***502,398***	***585,551***	***933,660***	***153,375***	***413,718***	***2,588,702***
Derivatives	-	*257,754*	-	-	-	***257,754***
Classic off-balance items	*502,398*	*327,797*	*933,660*	*153,375*	*413,718*	***2,330,948***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Bank 2021 HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	6,192,515	-	-	-	-	**6,192,515**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	-	**1,326,442**
Loans to and Receivables from Banks	156,631	132,877	-	99	230	**289,837**
Financial Assets at Fair Value through P&L	621,352	4,634	-	-	-	**625,986**
Financial Assets at FV through OCI	-	878,269	417,722	558,528	2,746,778	**4,601,297**
Financial Assets at Amortized Cost	294	150	9	-	-	**453**
Loans to and Receivables from Customers	1,081,679	328,729	1,431,591	3,576,777	7,833,024	**14,251,800**
Assets held for sale	9,200	-	-	-	-	**9,200**
Investments in subsidiaries	-	-	-	-	9,761	**9,761**
Properties, Equipment and Assets with the right of use	-	-	-	-	248,110	**248,110**
Investment Properties	-	-	-	-	60,629	**60,629**
Intangible Assets	-	-	-	-	93,319	**93,319**
Tax Prepayment	-	-	541	-	-	**541**
Other Assets	104,771	6,019	12,507	-	-	**123,297**
TOTAL ASSETS	**9,492,884**	**1,350,678**	**1,862,370**	**4,135,404**	**10,991,851**	**27,833,187**
LIABILITIES						
Financial Liabilities at FV through P&L	-	-	-	-	-	**-**
Deposits from Banks	28,017	8	-	-	-	**28,025**
Customer Deposits	19,309,423	1,049,245	2,353,789	619,448	90,184	**23,422,089**
Borrowings	2,544	31,706	107,390	263,529	991,717	**1,396,886**
Provisions for Liabilities and Expenses	36,994	797	15,405	25,657	9,162	**88,015**
Deferred tax liabilities, net	-	-	-	-	26,282	**26,282**
Tax Liabilities	-	-	-	-	35,887	**35,887**
Other Liabilities	43,907	34,593	23,992	42,315	40,765	**185,572**
Total Equity and reserves	-	-	-	-	2,650,430	**2,650,430**
TOTAL LIABILITIES, EQUITY AND RESERVES	**19,420,886**	**1,116,349**	**2,500,576**	**950,949**	**3,844,427**	**27,833,187**
MATURITY GAP	**(9,928,002)**	**234,329**	**(638,206)**	**3,184,455**	**7,147,424**	**-**
CUMMULATIVE MATURITY GAP	**(9,928,002)**	**(9,693,673)**	**(10,331,879)**	**(7,147,424)**	**-**	**-**
OFF-BALANCE	***446,292***	***495,720***	***1,064,089***	***170,165***	***758,481***	***2,934,747***
Derivatives	*-*	*257,754*	*-*	*-*	*-*	***257,754***
Classic off-balance items	*446,292*	*237,966*	*1,064,089*	*170,165*	*758,481*	***2,676,993***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Bank **2020** **HRK '000**	**0-30 Days**	**31-90 Days**	**91-360 Days**	**1 to 3 Years**	**Over 3 Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	3,684,902	-	-	-	-	**3,684,902**
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	-	**1,219,157**
Loans to and Receivables from Banks	379,281	18	-	50	50	**379,399**
Financial Assets at Fair Value through P&L	751,142	6,964	-	-	-	**758,106**
Financial Assets at FV through OCI	-	30,426	681,070	1,251,452	2,195,087	**4,158,035**
Financial Assets at Amortized Cost	784	1,191	-	-	-	**1,975**
Loans to and Receivables from Customers	1,209,165	457,848	2,116,029	2,777,147	8,162,581	**14,722,770**
Investment in subsidiaries	-	-	-	-	9,761	**9,761**
Properties and Equipment	-	-	-	-	258,356	**258,356**
Investment Properties	-	-	-	-	65,993	**65,993**
Intangible Assets	-	-	-	-	91,039	**91,039**
Tax Prepayment	-	-	2,639	-	-	**2,639**
Other Assets	100,613	5,616	5,406	-	-	**111,635**
TOTAL ASSETS	**7,345,044**	**502,063**	**2,805,144**	**4,028,649**	**10,782,867**	**25,463,766**
LIABILITIES						
Financial Liabilities at FV through P&L	-	21	-	-	-	**21**
Deposits from Banks	21,258	75,377	-	-	-	**96,635**
Customer Deposits	16,150,508	1,144,851	2,544,270	1,049,085	229,720	**21,118,434**
Borrowings	1,094	30,696	112,688	274,219	1,047,944	**1,466,641**
Provisions for Liabilities and Expenses	39,550	1,386	26,598	32,011	14,713	**116,424**
Deferred tax liabilities, net	-	-	-	-	23,483	**23,483**
Other Liabilities	33,795	24,988	27,702	57,764	26,941	**171,190**
Total Equity and reserves	**-**	**-**	**-**	**-**	**2,473,104**	**2,473,104**
TOTAL LIABILITIES, EQUITY AND RESERVES	**16,246,205**	**1,277,319**	**2,711,258**	**1,413,079**	**3,815,905**	**25,463,766**
MATURITY GAP	**(8,901,161)**	**(775,256)**	**93,886**	**2,615,570**	**6,966,962**	**-**
CUMMULATIVE MATURITY GAP	**(8,901,161)**	**(9,676,417)**	**(9,582,531)**	**(6,966,961)**	**-**	**-**
OFF-BALANCE	***502,398***	***585,551***	***933,660***	***153,375***	***413,718***	***2,588,702***
Derivatives	-	*257,754*	-	-	-	***257,754***
Classic off-balance items	*502,398*	*327,797*	*933,660*	*153,375*	*413,718*	***2,330,948***

2.3. Market Risk

The exposure to market risk occurs in balance sheet and off-balance sheet positions recognized at market (fair) value:

- financial assets at fair value through profit and loss account,
- financial assets at fair value through other comprehensive income,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank manages their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

Strategic Risks and Risk Control Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Directive (EU) no. 575/2013 of European Parliament and Council,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,

In addition, the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks:

- Duration represent measure of the sensitivity of debt security prices to changes in interest rates,
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

The Strategic Risk and Risk Control Division reports daily on the utilization of market risk exposure limits to the Management Board, the Financial Markets Division, the Financial Management Division and the Assets and Liabilities Management Office, and monthly to the Assets and Liabilities Management Committee.

2. RISK MANAGEMENT (continued)
2.3. Market Risk (continued)

a) Financial assets at fair value through profit and loss account

The table below shows the movements in those measures at December 31, 2021 and December 31, 2020.

2021	Position HRK '000	VaR
FX Risk	15,000	(59)
Debt Securities Position Risk	511,031	(2,822)
Equity Securities Position Risk	24,706	(1,033)
Investment Fund Position Risk	80,933	(1,998)
Correlation Effect	-	(2,103)
Market Risk		**(3,809)**

2020	Position HRK '000	VaR
FX Risk	7,543	(116)
Debt Securities Position Risk	623,917	(3,855)
Equity Securities Position Risk	24,254	(2,345)
Investment Fund Position Risk	71,086	(3,155)
Correlation Effect	-	(4,174)
Market Risk		**(5,297)**

b) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist of debt and equity securities.
The table below shows market value and risk value movements for the portfolio of debt and equity securities at fair value through other comprehensive income.

Debt securities	Market Value HRK '000	VaR HRK '000
2021	4,552,423	(18,216)
2020	4,108,988	(17,734)

Equity securities	Market Value HRK '000	VaR HRK '000
2021	22,021	(3,373)
2020	22,614	(5,787)

2. RISK MANAGEMENT (continued)

2.4. Interest Rate Risk in the Bank's Non-Trading Book

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank's Decision on the Management of Interest rate risk in the Bank's and Group's non-trading book, it is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank's non-trading book.

Apart from those regulations, managing interest rate risk in the Bank's non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that The Bank and Group assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of Economic Value of Capital

When assessing the exposure to interest rate risk arising from transactions in the book of positions that are not traded from the perspective of the economic value of capital, the Bank allocates interest-sensitive positions of the bank's book in time zones, distinguishing positions with fixed interest rate, variable interest rate and interest rate which can be changed by the decision of the Management Board (administrative interest rate) and estimates the change in the market value of the bank's book due to the simulated change in interest rates. The bank calculates the ratio of the change in the economic value of the bank's book and regulatory capital and maintains it in the ratios of the regulatory requirement. The change in the economic value of the Bank's book as at 31 December 2021 for the Bank amounted to HRK 30,825 thousand or 1.17% of regulatory capital (2020: HRK 48,266 thousand or 2.09% of regulatory capital).

Profit Perspective

The prospect of earnings includes a potential decrease in net interest income in case of changes in interest rates on the market. When calculating interest rate risk from a profit perspective, the Bank applies a simulation of interest rate changes observed over a 12-month period and a potential decrease in net interest income is maintained within the limit of 12% of net interest income for the observed period (from the beginning of the year) projected to annual level. The potential change in net interest income at the end of 2021 for the Bank amounts to HRK 6,461 thousand (2020: HRK 40,740 thousand).

Likewise, the Bank conducts a minimum yearly test of stress resistance based on more significant intensity of changes in interest rates.

Strategic Risks and Risk Control Division reports to the Bank for the Management of Interest Rate Risk in the Bank's Book of Assets and Liabilities Management.

2.5. Foreign Exchange Risk

The Bank is exposed to FX risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank manages their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency and maintaining daily business activities within the internal and regulatory limits.

The Bank is exposed to the risk of changes in the euro exchange rate to an insignificant extent. As at 31 December 2021, the amount of the Group's and the Bank's assets denominated in euros or euro-denominated currencies amounted to HRK 8,658,970 thousand (2020: the Group and the Bank HRK 7,669,193 thousand). Liabilities of the Group and the Bank denominated in euros or euro-denominated currencies amounted to HRK 8,972,187 thousand (2020: the Group and the Bank HRK 7,614,650 thousand). Therefore, a decrease in the kuna / euro exchange rate by 1% (appreciation of the kuna) would affect the Group's and the Bank's results in the amount of HRK 3,132 thousand of expenses (2020: the Group and the Bank's HRK 545 thousand of income).

The amounts of total assets and liabilities of the Bank and the Group as at 31 December 2021 and 31 December 2020 in HRK and foreign currencies (amounts denominated in HRK with a foreign currency clause refer mainly to the euro) are presented in the tables below.

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2021 u HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	4,753,612	-	1,125,596	313,347	**6,192,555**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	**1,326,442**
Loans to and Receivables from Banks	-	-	628	289,209	**289,837**
Financial Assets at Fair Value through P&L	356,542	267,784	1,660	-	**625,986**
Financial Assets at Fair Value through OCI	2,232,973	1,260,690	1,059,152	48,482	**4,601,297**
Financial Assets at Amortized Cost	453	-	-	-	**453**
Loans and Receivables from Customers	9,302,542	4,899,099	38,222	11,937	**14,251,800**
Assets Held for Sale	9,200	-	-	-	**9,200**
Property, Equipment and Assets with right to use	248,636	-	-	-	**248,636**
Investment property	67,642	-	-	-	**67,642**
Intangible Assets	93,381	-	-	-	**93,381**
Tax Prepayment	637	-	-	-	**637**
Other Assets	118,500	-	6,139	17	**124,656**
TOTAL ASSETS	**18,510,560**	**6,427,573**	**2,231,397**	**662,992**	**27,832,522**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	-	-	-	-	**-**
Deposits from Banks	25,468	-	671	1,886	**28,025**
Customer Deposits	14,212,231	71,843	8,490,859	637,911	**23,412,844**
Borrowings	1,002,066	296,027	98,793	-	**1,396,886**
Provisions for Liabilities and Expenses	88,080	-	-	-	**88,080**
Deferred Tax Liabilities, net	26,282	-	-	-	**26,282**
Income tax liability	35,887	-	-	-	**35,887**
Other Liabilities	173,372	-	13,948	450	**187,770**
Total Equity and reserves	2,656,747	-	-	-	**2,656,747**
TOTAL LIABILITIES, EQUITY AND RESERVES	**18,220,133**	**367,870**	**8,604,271**	**640,247**	**27,832,522**
NET FOREIGN EXCHANGE POSITION	**290,427**	**6,059,703**	**(6,372,874)**	**22,745**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2020 u HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	2,627,205	-	776,947	280,790	**3,684,942**
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	**1,219,157**
Loans to and Receivables from Banks	(861)	-	637	379,623	**379,399**
Financial Assets at Fair Value through P&L	481,091	273,662	3,353	-	**758,106**
Financial Assets at Fair Value through OCI	2,298,193	1,276,205	533,647	49,990	**4,158,035**
Financial Assets at Amortized Cost	1,975	-	-	-	**1,975**
Loans and Receivables from Customers	9,866,279	4,665,588	133,924	56,979	**14,722,770**
Assets Held for Sale	-	-	-	-	**-**
Property and Equipment	259,000	-	-	-	**259,000**
Investment property	73,430	-	-	-	**73,430**
Intangible Assets	91,231	-	-	-	**91,231**
Tax Prepayment	2,714	-	-	-	**2,714**
Other Assets	107,688	-	5,324	7	**113,019**
TOTAL ASSETS	**17,027,196**	**6,215,455**	**1,453,832**	**767,389**	**25,463,778**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	21	-	-	-	**21**
Deposits from Banks	12,672	-	77,719	6,244	**96,635**
Customer Deposits	13,323,909	159,428	6,881,994	745,515	**21,110,846**
Borrowings	978,800	365,969	121,872	-	**1,466,641**
Provisions for Liabilities and Expenses	116,424	-	-	-	**116,424**
Deferred Tax Liabilities, net	23,483	-	-	-	**23,483**
Other Liabilities	165,064	-	7,668	259	**170,498**
Total Equity and reserves	2,478,902	-	-	-	**2,478,902**
TOTAL LIABILITIES, EQUITY AND RESERVES	**17,097,110**	**525,397**	**7,089,253**	**752,018**	**25,463,778**
NET FOREIGN EXCHANGE POSITION	**(69,914)**	**5,689,964**	**(5,635,421)**	**15,371**	**-**

2. RISK MANAGEMENT (continued)
2.5. Foreign Exchange Risk (continued)

Bank **2021** **u HRK '000**	**HRK**	**HRK Linked to Foreign Currencies**	**EUR**	**Other Foreign Currencies**	**Total**
ASSETS					
Cash and Amounts Due from Banks	4,753,572	-	1,125,596	313,347	**6,192,515**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	**1,326,442**
Loans to and Receivables from Banks	-	-	628	289,209	**289,837**
Financial Assets at Fair Value through P&L	356,542	267,784	1,660	-	**625,986**
Financial Assets at Fair Value through OCI	2,232,973	1,260,690	1,059,152	48,482	**4,601,297**
Financial Assets at Amortized Cost	453	-	-	-	**453**
Loans and Receivables from Customers	9,302,542	4,899,099	38,222	11,937	**14,251,800**
Assets Held for sale	9,200	-	-	-	**9,200**
Investments in Subsidiaries	9,761	-	-	-	**9,761**
Property and Equipment	248,110	-	-	-	**248,110**
Investment property	60,629	-	-	-	**60,629**
Intangible Assets	93,319	-	-	-	**93,319**
Tax Prepayment	541	-	-	-	**541**
Other Assets	117,142	-	6,139	16	**123,297**
TOTAL ASSETS	**18,511,226**	**6,427,573**	**2,231,397**	**662,991**	**27,833,187**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	-	-	-	-	**-**
Deposits from Banks	25,468	-	671	1,886	**28,025**
Customer Deposits	14,221,428	71,843	8,490,905	637,913	**23,422,089**
Borrowings	1,002,066	296,027	98,793	-	**1,396,886**
Provisions for Liabilities and Expenses	88,015	-	-	-	**88,015**
Deferred Tax Liabilities, net	26,282	-	-	-	**26,282**
Income tax liability	35,887	-	-	-	**35,887**
Other Liabilities	171,174	-	13,948	450	**185,572**
Total Equity and reserves	2,650,430	-	-	-	**2,650,430**
TOTAL LIABILITIES, EQUITY AND RESERVES	**18,220,751**	**367,870**	**8,604,317**	**640,249**	**27,833,187**
NET FOREIGN EXCHANGE POSITION	**290,475**	**6,059,703**	**(6,372,920)**	**22,742**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank **2020** **u HRK '000**	**HRK**	**HRK Linked to Foreign Currencies**	**EUR**	**Other Foreign Currencies**	**Total**
ASSETS					
Cash and Amounts Due from Banks	2,627,165	-	776,947	280,790	**3,684,902**
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	**1,219,157**
Loans to and Receivables from Banks	(861)	-	637	379,623	**379,399**
Financial Assets at Fair Value through P&L	481,091	273,662	3,353	-	**758,106**
Financial Assets at Fair Value through OCI	2,298,193	1,276,205	533,647	49,990	**4,158,035**
Financial Assets at Amortized Cost	1,975	-	-	-	**1,975**
Loans and Receivables from Customers	9,866,279	4,665,588	133,924	56,979	**14,722,770**
Investments in Subsidiaries	9,761	-	-	-	**9,761**
Property and Equipment	258,356	-	-	-	**258,356**
Investment property	65,993	-	-	-	**65,993**
Intangible Assets	91,039	-	-	-	**91,039**
Tax Prepayment	2,639	-	-	-	**2,639**
Other Assets	106,398	(94)	5,324	7	**111,635**
TOTAL ASSETS	**17,027,184**	**6,215,361**	**1,453,832**	**767,389**	**25,463,766**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	21	-	-	-	**21**
Deposits from Banks	12,672	-	77,719	6,244	**96,635**
Customer Deposits	13,331,448	159,428	6,882,040	745,518	**21,118,434**
Borrowings	978,800	365,969	121,872	-	**1,466,641**
Provisions for Liabilities and Expenses	116,424	-	-	-	**116,424**
Deferred Tax Liabilities, net	23,483	-	-	-	**23,483**
Other Liabilities	163,263	-	7,668	259	**171,190**
Total Equity and reserves	2,473,104	-	-	-	**2,473,104**
TOTAL LIABILITIES, EQUITY AND RESERVES	**17,097,50**	**525,397**	**7,089,299**	**752,021**	**25,463,766**
NET FOREIGN EXCHANGE POSITION	**(69,866)**	**5,689,964**	**(5,635,467)**	**15,368**	**-**

2.6. Operating Risk Management

Operating risk is inherent to all activities, processes, products and systems of the Bank. The Bank ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Bank defines operational risk as a risk of an event which, as a consequence, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Bank applies the following:

- Collecting and analyzing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Bank assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Bank applies a standardized approach to calculating the capital requirement for operational risk.

2.7. Capital Management

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made.

The Bank manages capital in line with internal capital adequacy assessment (ICAAP). It establishes significant risks to which it is exposed or estimates that it may be exposed, calculate or estimate the required capital requirements for exposure to particular risks and establish the total required (internal) capital for the current and subsequent period in accordance with the business plan. In accordance with capital requirements so expressed, capital planning is carried out whereby items of available capital are considered exclusively to items recognized for the purpose of calculating the regulatory capital.

2. RISK MANAGEMENT (continued)
2.7. Capital Management (continued)

In planning capital needs it is necessary to take into account capital adequacy, i.e. regulatory capital requirements for
exposures to credit, market and operational risk.

Regulatory minimum rate of total capital adequacy prescribed by law on 31.12.2021 is 8 percent. The regulatory obligation to maintain the rate of protective layers of capital is prescribed for the rate of protective layer for capital preservation of 2.5 percent (2020: 2.5 percent), protective layer for structural systemic risk of 1.5 percent (2020: 1.5 percent) and a protective layer for systemically important credit institutions in the Republic of Croatia in the amount of 0.5 percent (2020: 0.5 percent). In addition, during 2021, the Bank retained a supervisory protective layer of capital in the total amount of 3.17 percent (2020: 3.17 percent).

Therefore, the total regulatory requirements as of 31.12.2021. years are 15.67% (2020: 15.67%).

Below is an overview of regulatory capital movements for the Bank:

Bank	**2021 HRK '000**	**2020 HRK '000**
REGULATORY CAPITAL		
Tier-1 Capital	2,631,032	2,311,562
Common Equity Tier-1 Capital	*2,631,032*	*2,311,562*
Tier-2 Capital	-	-
Total regulatory capital	**2,631,032**	**2,311,562**
Credit Risk Exposure Using Standardized Approach	8,427,074	8,876,005
Exposure to FX and Position Risk	326,540	275,115
Exposure to Operating risk	1,503,453	1,444,016
Exposure to Credit Value Adjustment Risk	-	214
Total Risk Exposure Amount	**10,257,067**	**10,595,350**
Total Capital Adequacy Ratio	**25.65%**	**21.82%**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment Losses on Loans and Receivables

The Group continuously monitors creditworthiness of its customers. In accordance with the requirements of the CNB, the need to reduce the value of the balance sheet and the provision for off-balance sheet exposure to credit risk is estimated quarterly for large exposures or monthly for a portfolio of exposures below HRK 700 thousand. Impairment losses are mainly recognized in relation to the net book value of loans to legal entities and households (presented in Note 11), and as provisions for liabilities and expenses arising from off-balance sheet exposures to customers, most often in the form of approved guarantees, letters of credit and approved unused loans (presented in notes 23 and 39). Impairment losses are also considered for credit exposure to banks and for other assets not carried at fair value and where the primary impairment risk is not a credit risk. Impairment policy of placements is explained in the note 2.1.2.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	Notes	2021 HRK '000	2020 HRK '000
Impairment Losses of Loans to and Receivables from Customers	11	1,553,064	1,580,962
Provisions for Off-Balance Sheet Exposures	23	39,781	57,794
Total		**1,592,845**	**1,638,756**

Bank	Notes	2021 HRK '000	2020 HRK '000
Impairment Losses on Loans to and Receivables from Customers	11	1,553,064	1,580,962
Provisions for Off-Balance Sheet Exposures	23	39,781	57,794
Total		**1,592,845**	**1,638,756**

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Financial Assets at Amortized Cost

The Group estimates creditworthiness of its customers and, in accordance with it, estimates impairment losses per balance sheet exposures and provisions for liabilities related to off-balance potential liabilities, whether exposures with no default status or exposure with default status, whereby relevant CNB regulations are taken into account which prescribe credit losses and is based on the International Financial Reporting Standard 9.

Impairment policy is presented in detail in the note 2.1.2. Loans impairment policy.

At the end of the year, gross value of impaired assets placed into risk categories B and C, as well as recognized impairment of these exposures, were as follows:

Group	2021	2020
Gross Exposures (in HRK'000)	**2,154,060**	**2,139,313**
Impairment Loss (in HRK'000)	1,318,231	1,338,312
Impairment Rate	**61.20%**	**62.56%**

Bank	2021	2020
Gross Exposures (in HRK'000)	**2,154,060**	**2,139,313**
Impairment Loss (in HRK'000)	1,318,410	1,338,452
Impairment Rate	**61.21%**	**62.56%**

Any additional increase in the impairment rate by one percentage point of gross exposure as at 31 December 2021 would result in an increase in impairment loss for the Bank and the Group of HRK 21,541 thousand (2020: Bank and Group: HRK 21,293 thousand).

Market Value of Pledged Property

As disclosed above (note 2.1.3 (c)), loans and receivables from customers include exposures with a book value of HRK 2,143,784 thousand (2020: the Bank and the Group HRK 2,128,229 thousand) classified by the Group and the Bank as impaired due to the disadvantage of payment, which is secured by a pledge over real property, plant and equipment. In assessing the recoverability of pledges based on real estate in a pledge, the market value of the property in the collateral is reduced and reduced to the present value using the impairment factor and the collection deadlines in accordance with CNB regulation.

Market and book value of investment property

Furthermore, as disclosed in Note 15, Investment property as at 31 December 2021 includes property, plant and equipment with a gross carrying amount of HRK 172,358 thousand which represents assets acquired in exchange for outstanding receivables. Investments in real estate are initially stated at cost, including transaction costs. All real estate investments are valued at fair value. The fair value of such assets is estimated annually based on an independent appraiser's estimate, and any gain or loss arising from changes in the fair value of the investment property is recognized in the income statement in the period in which they arise. In the observed period, the Group recognized the gain on changes in the fair value of above proprety in the amount of HRK 1,903 thousand (2019: loss of HRK 8,712 thousand). The net carrying amount of foreclosed assets within the Group's Investment Property as at 31 December 2021 amounted to HRK 67,642 thousand (2020: HRK 73,430 thousand) and HRK 60,629 thousand (2020: HRK 65,993 thousand) with the Bank, respectively.

The Bank and the Group actively sell real estate taken over for uncollected receivables (classified as investment property) and in 2021 sold buildings and land in the total net amount of HRK 3,790 thousand (2020: HRK 1,595 thousand). During the reporting period, the Bank and the Group reported net gains on real estate in question in the amount of HRK 1,903 thousand (2020: loss of HRK 8,712 thousand).

Following the sale of real estate, the Group and the Bank generated HRK 3,790 thousand of revenue from the sale of acquired tangible assets during the reporting period (2020: HRK 2,281 thousand of revenue).

Information on real estate taken over in exchange for outstanding receivables of the Bank and the Group, classified within Investment Property, and on the hierarchy of fair value measures as at 31 December 2021 and 31 December 2020 are provided in Note 15. Investment property .

The fair value of the Bank's real estate investments was determined based on value estimates from 2021, with the possible application of a discount factor of marketability for cases where this is applicable. Real estate appraisals in 2021 were performed by PBZ Nekretnine d.o.o., Zagreb nekretnine d.o.o. and HPB nekretnine d.o.o. The appraisers of these companies acted as independent appraisers, who have the necessary professional qualifications and recent experience in assessing the fair value of real estate, and have no interest in the property or interests related to the amount of appraised property at relevant locations.

Fair value is assessed in accordance with the Real Estate Valuation Act (OG 78/2015) and the Ordinance on Real Estate Valuation Methods (OG 105/2015), according to legally prescribed and appropriate methods, taking into account a number of factors in determining its market value and marketability. The valuation method did not change during the year.

Fair Value of Derivatives

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price. For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

Fair Value of Treasury Bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As at December 31, 2021, the Group and the Bank had no treasury bills classified as financial assets at fair value through profit or loss (2020. -). The carrying amount of treasury bills classified as financial assets at FV through OCI for the Group and the Bank as at 31 December 2021 amounted to HRK 376,071 thousand (the Bank and the Group in 2020: HRK 188,212 thousand).

Provisions for Court Cases Initiated Against the Bank and the Group

In calculating provisions for court, expenses the Bank and Group discounts expected future cash flows with respect to the liabilities using the CNB’s discount rate.

Taxation

The Bank and Group recognizes tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers’ records.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Actuarial estimates used in calculating provision for termination benefits and jubilee awards

Termination benefits, jubilee awards and solidarity grants was determined using actuarial valuation using the projected unit credit method. Actuarial estimates are based on a number of relevant assumptions about discount rates, inflation rates, mortality rates, and employee turnover rates. Data from the Central Bureau of Statistics were used for mortality rates in the Republic of Croatia, while the retirement age was determined for each employee separately, taking into account his current age and total length of service and prescribed retirement conditions. The annual departure rate, ie the turnover rate, is 7.8%, while for workers over 60 years of age the turnover rate is set at 0%. To calculate the gross amount of defined benefits, the regulations from the Income Tax Act, which entered into force on 1 January 2021, were taken into account. The yield interest rate of 0.4% determined using yields on Croatian government bonds was used. The inflation rate was taken from the publication of the Croatian National Bank (Macroeconomic Trends and Forecasts) from July 2021 in the amount of 1.5%.

Provisions for pension benefits, jubilee awards and solidarity assistance of the Bank as at 31 December 2021 amounted to HRK 7,163 thousand (2019: HRK 4,047 million).

COVID-19 impact on business

Negative impact of COVID-19 pandemic affected all areas of life and business and could be considered the most significant event of 2020 which shook up global economy. In Croatia, due to pandemic, after five years of consecutive growth, the real GDP decreased for 8.4% y-o-y in 2020. Such a strong plummet of GDP is even greater than the one in critical 2009. Besides negative macroeconomic movements and overall decrease in economic activity, implementation of citizens protection measures from virus outbreak resulted in additional extraordinary expenses for the Bank and the Group, incurred in order to ensure unobstructed continuance of doing business and employees and clients health protection. During 2020 Bank's and Group's management faced decision making and business management in the circumstances of exceptional uncertainty which required sharpness and courage, though resulted in various improvements in processes in terms of digitalization of business and more agile approach to processes and projects. Furthermore, in 2020 the Bank has performed noticeably successfully, outperforming last year results and incurred volume increase with decreased usage of capital and achieved most of its operational goals. Despite leaving 2020 behind us, the uncertainty regarding the further progress of the pandemic and pace of economic recovery is setting new challenges in front of management of the Bank and the Group and required further monitoring and assessing the impact on financial position and financial performance.

COVID-19 support measures to clients

In the retail segment, since the beginning of the pandemic, the Bank has approved measures for a total portfolio of HRK 441 million, of which part of the portfolio of HRK 336 million was released from the moratoria, part of the portfolio of HRK 30 million was returned and part of HRK 71 million from performing status to default status. On 31.12.2021. there is a remaining HRK 4 million portfolio with an active moratoria measure.

In the corporate segment, since the beginning of the pandemic, the Bank has approved measures for a total portfolio of HRK 1.939 billion, of which part of the portfolio of HRK 1.163 billion came out of the moratoria, part of the portfolio of HRK 652 million was returned and the remaining 124 million kuna passed from performing status to default status. On 31.12.2021. there were no placements with an active moratoria measure resulting from covid measures.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Assessment of default status and risk parameters

In accordance with the Regulatory Circulars and EBA guidelines, the Bank adhered to the territorial and industrial framework in approving moratorias at the group level:

- Territorial moratoria is determined as a general and equal measure for all business entities operating in the territory of the Republic of Croatia, which can prove that their business is affected by the COVID-19 pandemic,
- The industrial moratoria is granted to all business entities operating in the territory of the Republic of Croatia in the tourism sector as well as to all business entities that generate 50% or more of total revenues in the period between June 1, 2020. and 30.9.2020. (for which there is an obvious seasonal impact), which can prove that their business has been affected by the onset of the COVID-19 pandemic.

When approving the moratoria, the Bank did not use COVID-19 measures as an indicator of increased credit risk that would result in the reclassification of clients to a lower risk group in accordance with applicable instructions and guidelines of the regulator.

Following the availability of inputs for the calculation of cash flows, the Bank analyzed the corporate clients granted the moratoria on an individual basis, within which the future classification was proposed. The same was carried out until 30.06.2021. years. The result of the comprehensive assessment (mostly due to the proclamation of the so-called UTP criteria) resulted in HRK 124 million of exposure in NPLs, resulting from previously approved moratorias on the economy segment. Despite the UTP criteria, this portfolio has good behavioral performance over the next year and certain activities (initially affected by covid) recorded a significant recovery in the second half of 2021.

Assessment of expected credit loss and quantification of risk parameters

The Bank has adopted comprehensive analysis of credit risk based on multiple indicators both with quantitative as well as qualitative information, where, in addition to days past due indicator, other indicators such as deterioration of financial position, early warning signals or certain concessions approved to the borrower.In addition to previous comes the table presentation of share movement in stages from which it can be seen that approved moratoria did not influence exposures from Stage 2:

STAGE	31.12.2019	31.3.2020	30.6.2020	30.09.2020	30.11.2020
Stage 1	82.64%	81.67%	82.26%	82.13%	81.41%
Stage 2	4.70%	5.09%	4.54%	4.53%	5.09%
Stage 3	12.66%	13.24%	13.20%	13.33%	13.49%

Upon the distribution of exposures to Stage 2, the maximally avoids overrides of quantitative indicators to lower amounts and does not use reverse engineering in order to realize goal shares per stage.

As at 31 December 2021, the remaining moratoria amount to HRK 4 million and relate to approved moratoria on the population, while in the economy segment there are no remaining moratoriums. In the status of non-fulfillment of obligations as at 31 December 2021, a total of HRK 195 million (6.4% economy, 16.1% population) out of the total approved moratoria.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Assessment of COVID-19 impacts on the value of non-financial asset

Real estate owned by the Banks covers real estate held for doing business, repossessed asset for uncollected receivables and investment property. Those real estate are measured at fair value which is determined by independent external appraiser as covered in notes 14 and 15. Despite the fact that in 2020 no significant impairment which would be related to the pandemic, fair value of this category of asset should be monitored in the periods ahead due to uncertainty of subsequent reaction of real estate market on the pandemic. Additionally, negative impact on real estate fair value came from earthquakes in March and in December of 2020, in the areas of central Croatia which were hit by earthquakes.

COVID-19 and financial markets movements

In the period of excessive outbreak of pandemic, significant decrease in share and bond prices was noted, caused by the uncertainty and investors' fears. However, coordinated actions of central banks resulted in restarting significant programs of bond repurchases. Through the activities of EBA and CNB the unstoppable drops in securities prices were prevented issuing additional liquidity which led to the stabilization of markets.

Assessment of COVID-19 impact on the going concern

Negative impact of COVID-19 pandemic is unquestionable for 2020, however successful performance of the Bank in challenging year behind us shows Bank's readiness to properly manage crisis and adapt the business towards new settings. Taking into account all the circumstances in significant accounting estimates in these financial statements as well as taking into account the uncertainty of economic recovery the management of the Bank and the Group with reasonable certainty believes that they will continue to operate profitably in the foreseeable future. As a result, these separate and consolidated financial statements were prepared on a going concern basis.

Earthquakes in 2020

Apart from the COVID-19 pandemic, which affected the entire world, 2020 in the Republic of Croatia was marked with devastating earthquakes which hit Zagreb and its surroundings in March and cities Petrinja and Sisak with their surroundings in December. The Bank suffered damages in terms of temporary closing of offices and material damages of buildings owned by the Bank which resulted in increase in rent expenses for the new office space. The damages caused by the earthquakes are measured at tens of millions of kuna but did not have material financial impact on Bank's business in 2020.

The Bank adjusted products and services to client's needs affected by the earthquake and launched new credit line for renewal of residential real estate and opened special account for donations. With a will to help those whose homes were damaged in earthquake which hit Petrinja and large part of middle Croatia, the Bank donated one million kuna to the city of Petrinja.

4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business Segments

The Group comprises following primary reportable segments:

- **Corporate Banking**
  Includes loans, deposits and other transactions and balances with corporate customers,
  Corporate banking is divided into two sub-segments:
  - Large companies and public sector
  - Small and medium enterprises

- **Retail Banking**
  Includes loans, deposits, direct (card) business, other transactions with retail customers and uninterrupted functioning and development of all direct distribution channels of products and services of the Bank.

- **Financial Markets**
  Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.

- **Direct banking**
  Includes the smooth operation and development of all direct distribution channels of the Bank's products and services and card business.

The Group does not apply internal transfer prices in determining the financial results of segments. Internal transfer prices are a tool which the Group uses in reporting management.

Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial reports. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the report of segmentation, while in the financial reports part of positions related to the Retail Banking.

4. SEGMENT REPORTING (continued)

Group 2021 HRK '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	139,224	317,836	67,048	-	-	524,109
Net Fees and Commissions Income	62,453	97,193	3,390	31,924	3,486	198,447
Trading and Investment Income	-	-	83,170	-	-	83,170
Other Income	7,744	10,563	1,190	-	5,287	24,784
Operating Income	**209,422**	**425,592**	**154,798**	**31,924**	**8,774**	**830,510**
General and Administrative Expenses	(32,636)	(138,468)	(6,648)	(38,310)	(234,062)	(450,124)
Depreciation and Amortization	-	-	-	-	(67,823)	(67,823)
Impairment Losses on Loans and Other Asset	(4,318)	(63,696)	109	-	2,095	(65,810)
Provisions for Liabilities and Expenses	-	-	-	-	(307)	(307)
Operating Expenses	**(36,954)**	**(202,164)**	**(6,539)**	**(38,310)**	**(300,097)**	**(584,064)**
Profit Before Taxation	172,468	223,428	148,259	(6,386)	(291,323)	246,446
Income Tax	-	-	-	-	(43,821)	(43,821)
Profit for the Year	**172,468**	**223,428**	**148,259**	**(6,386)**	**(335,144)**	**202,625**
Segment Assets	6,892,916	9,114,053	11,579,202	168	(655)	27,585,684
Unallocated Assets	-	-	-	-	246,837	246,837
Total Assets	**6,892,916**	**9,114,053**	**11,579,202**	**168**	**246,182**	**27,832,522**
Segment Liabilities	11,503,462	12,175,603	1,241,535	56,330	2,262	24,979,193
Unallocated Equity and Liabilities	-	-	-	-	2,853,329	2,853,329
Total Equity, Reserves and Liabilities	**11,503,462**	**12,175,603**	**1,241,535**	**56,330**	**2,855,591**	**27,832,522**

4. SEGMENT REPORTING (continued)

Group 2020 HRK '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	152,177	306,757	78,283	-	10	537,227
Net Fees and Commissions Income	57,082	94,487	3,356	13,565	13,224	181,714
Trading and Investment Income	-	-	82,104	-	-	82,104
Other Income	6,121	2,601	(7,336)	-	8,208	9,593
Operating Income	**215,380**	**403,845**	**156,408**	**13,565**	**21,441**	**810,639**
General and Administrative Expenses	(36,011)	(200,210)	(6,507)	(38,492)	(161,764)	(442,985)
Depreciation and Amortization	-	-	-	-	(76,630)	(76,630)
Impairment Losses on Loans and Other Assets	(59,527)	(54,899)	48	-	(6,986)	(121,364)
Provisions for Liabilities and Expenses	-	-	-	-	58,910	(58,910)
Operating Expenses	**(95,538)**	**(255,109)**	**(6,459)**	**(38,492)**	**(186,471)**	**(582,069)**
Profit Before Taxation	119,842	148,736	149,949	(24,927)	(165,030)	228,570
Income Tax	-	-	-	-	(45,186)	(45,186)
Profit for the Year	**119,842**	**148,736**	**149,949**	**(24,927)**	**(210,215)**	**183,384**
Segment Assets	7,698,261	8,238,964	9,260,208	220	23	25,197,675
Unallocated Assets	-	-	-	-	266,103	266,103
Total Assets	**7,698,261**	**8,238,964**	**9,260,208**	**220**	**266,103**	**25,463,778**
Segment Liabilities	9,696,627	11,709,847	1,364,293	39,601	3,377	22,817,957
Unallocated Equity and Liabilities	-	-	-	-	2,650,032	2,650,032
Total Equity, Reserves and Liabilities	**9,696,627**	**11,709,847**	**1,364,293**	**39,601**	**2,653,409**	**25,463,778**

4. SEGMENT REPORTING (continued)

Bank

2021 HRK '000	**Corporate**	**Retail**	**Financial Market**	**Direct banking**	**Unallocated**	**Total**
Net Interest Income	139,224	317,836	67,051	-	-	524,111
Net Fees and Commissions Income	62,453	97,193	3,390	31,924	(2,084)	192,877
Trading and Investment Income	-	-	83,170	-	-	83,170
Other Income	7,744	10,563	1,190	-	1,556	21,053
Operating Income	**209,422**	**425,592**	**154,801**	**31,924**	**(527)**	**821,211**
General and Administrative Expenses	(32,636)	(138,468)	(6,648)	(38,310)	(226,338)	(442,399)
Depreciation and Amortization	-	-	-	-	(67,020)	(67,020)
Impairment Losses on Loans and Other Assets	(4,318)	(63,696)	109	-	2,095	(65,810)
Provisions for Liabilities and Expenses	-	-	-	-	(307)	(307)
Operating Expenses	**(36,954)**	**(202,164)**	**(6,539)**	**(38,310)**	**(291,570)**	**(575,536)**
Profit Before Taxation	**172,468**	**223,428**	**148,262**	**(6,386)**	**(292,097)**	**245,675**
Income Tax					(43,568)	(43,568)
Profit for the Year	**172,468**	**223,428**	**148,262**	**(6,386)**	**(335,665)**	**202,107**
Segment Assets	6,898,833	9,114,053	11,573,245	168	-	27,586,299
Unallocated Assets	-	-	-	-	246,888	246,888
Total Assets	**6,898,833**	**9,114,053**	**11,573,245**	**168**	**246,888**	**27,833,187**
Segment Liabilities	11,503,462	12,175,603	1,250,780	56,330	-	24,986,175
Unallocated Equity and Liabilities	-	-	-	-	2,847,012	2,847,012
Total Equity, Reserves and Liabilities	**11,503,462**	**12,175,603**	**1,250,780**	**56,330**	**2,847,012**	**27,833,187**

4. SEGMENT REPORTING (continued)

Bank

2020 HRK '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	152,278	306,757	78,290	-	10	**537,335**
Net Fees and Commissions Income	57,082	94,487	3,356	13,565	7,777	**176,267**
Trading and Investment Income	-	·	82,104	-	-	**82,104**
Other Income	6,121	2,601	(7,336)	-	2,006	**3,392**
Operating Income	**215,481**	**403,845**	**156,415**	**13,565**	**9,792**	**799,098**
General and Administrative Expenses	(36,011)	(200,210)	(6,507)	(38,492)	(152,657)	**(433,877)**
Depreciation and Amortization	-	·	·	-	(75,816)	**(75,816)**
Impairment Losses on Loans and Other Assets	(59,527)	(54,899)	48	-	(6,986)	**(121,364)**
Provisions for Liabilities and Expenses	-	·	·	-	58,910	**(58,910)**
Operating Expenses	**(95,538)**	**(255,109)**	**(6,459)**	**(38,492)**	**(176,549)**	**(572,147)**
Profit Before Taxation	119,943	148,736	149,956	(24,927)	(166,757)	**226,950**
Income Tax	-	·	·	-	(44,888)	**(44,888)**
Profit for the Year	**119,943**	**148,736**	**149,956**	**(24,927)**	**(211,645)**	**182,063**
Segment Assets	7,704,081	8,238,964	9,254,347	220	-	**25,197,612**
Unallocated Assets	-	·	·	-	266,154	**266,154**
Total Assets	**7,704,081**	**8,238,964**	**9,254,347**	**220**	**266,154**	**25,463,766**
Segment Liabilities	9,696,627	11,709,847	1,371,882	39,601	-	**22,817,957**
Unallocated Equity and Liabilities	-	·	·	-	2,645,809	**2,645,809**
Total Equity, Reserves and Liabilities	**9,696,627**	**11,709,847**	**1,371,882**	**39,601**	**2,645,809**	**25,463,766**

5. CASH AND RECEIVABLES FROM BANKS

Group			2021 HRK '000			2020 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Cash in Hand						
Held by the Group	301,558	1,023,258	1,324,816	268,548	519,393	787,941
Held by Other Parties	97,728	-	97,728	112,131	-	112,131
Cheques in the Course of Collection	-	234	234	-	29	29
	399,286	**1,023,492**	**1,422,778**	**380,679**	**519,423**	**900,102**
Amounts Due from Banks						
Current Accounts with Domestic Banks	39	1,667	1,705	40	860	900
Current Accounts with Foreign Banks	-	413,785	413,785	-	537,456	537,456
Transaction Account with the CNB	3,970,093	384,193	4,354,286	2,233,086	13,399	2,246,485
	3,970,131	**799,645**	**4,769,776**	**2,233,126**	**551,715**	**2,784,840**
Total	**4,369,418**	**1,823,136**	**6,192,554**	**2,613,805**	**1,071,137**	**3,684,943**

Bank			2021 HRK '000			2020 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Cash in Hand						
Held by the Group	301,558	1,023,258	1,324,816	268,548	519,393	787,941
Held by Other Parties	97,728	-	97,728	112,131	-	112,131
Cheques in the Course of Collection	-	234	234	-	29	29
	399,286	**1,023,492**	**1,422,778**	**380,679**	**519,423**	**900,102**
Amounts Due from Banks						
Current Accounts with Domestic Banks	-	1,667	1,667	-	859	859
Current Accounts with Foreign Banks	-	413,785	413,785	-	537,456	537,456
Transaction Account with the CNB	3,970,093	384,193	4,354,286	2,233,086	13,399	2,246,485
	3,970,093	**799,645**	**4,769,737**	**2,233,086**	**551,714**	**2,784,800**
Total	**4,369,379**	**1,823,136**	**6,192,515**	**2,613,766**	**1,071,136**	**3,684,902**

6. MANDATORY RESERVE WITH CROATIAN NATIONAL BANK

Group	2021 HRK '000			2020 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Mandatory Reserve	1,326,442	-	1,326,442	1,219,157	-	1,219,157
Total	**1,326,442**	**-**	**1,326,442**	**1,219,157**	**-**	**1,219,157**

Bank	2021 HRK '000			2020 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Mandatory Reserve	1,326,442	-	1,326,442	1,219,157	-	1,219,157
Total	**1,326,442**	**-**	**1,326,442**	**1,219,157**	**-**	**1,219,157**

Mandatory reserve with the Croatian National Bank represents amounts held at the CNB due to a prescribed obligation by the Croatian National Bank.

The reserve requirement rate amounts to 9 percent of Kuna and foreign currency deposits, loans and debt securities issued (31 December 2020: 9.0%).

The rate of allocating the required minimum Kuna reserve requirement with the Croatian National Bank as at 31 December 2021 was 70% (2020: 70%), while the remaining 30% (2020: 30%) was maintained in the form of other liquid receivables.

By the decision of the CNB Council the obligation to allocate the foreign currency part of the reserve has been abolished. The CNB does not pay any fees on the reserve requirements set aside.

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Short-Term Placements with Foreign Banks	277,690	368,342	277,690	368,342
Total Short-Term Placements and Loans with Banks	**277,690**	**368,342**	**277,690**	**368,342**
Guarantee Deposits with Foreign Banks	13,046	11,899	13,046	11,899
Total Short-Term Placements and Loans with Banks	**13,046**	**11,899**	**13,046**	**11,899**
Short-Term Placements with Domestic Non-Banking Financial Institutions	500	500	500	500
Long-Term Placements with Domestic Non-Banking Financial Institutions	99	100	99	100
Long-Term Placements with Domestic Non-Banking Financial Institutions	**599**	**600**	**599**	**600**
Provisions for Impairment Losses on loans to and receivables from Banks	**(1,504)**	**(1,460)**	**(1,504)**	**(1,460)**
Accrued Interests Not Yet Due	6	18	6	18
Total Interests Receivable	**6**	**18**	**6**	**18**
Total	**289,837**	**379,399**	**289,837**	**379,399**

Guarantee deposits mainly relate to deposits for card operations.

Movements in Impairment Allowance

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Balance at January 1	**1,460**	**1,220**	**1,460**	**1,220**
Impairment Losses on Loans to and Receivables from Banks	44	240	44	240
Balance at December 31	**1,504**	**1,460**	**1,504**	**1,460**

All placements and loans to other banks of the Group and Bank are in stage 1 and during the year there were no transfers between tiers, except for receivables from banks in the amount of HRK 500 thousand, which is in tier 3 and in previous periods a 100% impairment was carried out.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Trading Instruments				
Listed Debt Securities				
Bonds of the Ministry of Finance	483,499	619,551	483,499	619,551
Corporate bonds and commercial bills	24,861	-	24,861	-
Listed Debt Securities	**508,361**	**619,551**	**508,361**	**619,551**
Listed Investment Funds	**80,933**	**71,086**	**80,933**	**71,086**
Listed Equity Securities	**24,706**	**24,254**	**24,706**	**24,254**
Not Listed Equity Securities	**-**	**20,000**	**-**	**20,000**
	614,000	**734,892**	**614,000**	**734,892**
Loans and receivables from customers				
- corporate	2,895	5,093	2,895	5,093
- retail	4,457	11,157	4,457	11,157
	7,352	**16,250**	**7,352**	**16,250**
Accrued Interests Not Yet Due	4,634	6,964	4,634	6,964
Total	**625,986**	**758,106**	**625,986**	**758,106**

During 2020, the Bank reclassified investments in equity securities of Drvna Industrija Spačva d.d. in the amount of HRK 20,000 thousand from assets held for sale, given that the criteria of IFRS 5 for classification are no longer met, ie due to the current situation on the financial markets. In 2021, the said investment was sold.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Listed Debt Securities				
Bonds of the Ministry of Finance	3,953,844	3,807,305	3,953,844	3,807,305
Corporate Bonds	195,219	83,065	195,219	83,065
	4,149,062	**3,890,370**	**4,149,062**	**3,890,370**
Debt Securities Not Listed				
Treasury Bills of Ministry of Finance	**376,071**	**188,212**	**376,071**	**188,212**
Equity securities Not Listed				
- Corporate	26,669	24,095	26,669	24,095
	25,669	**24,095**	**25,669**	**24,095**
Listed Equity Securities				
- Corporate	22,021	22,614	22,021	22,614
- Non-Banking Financial Institutions	2,215	3,352	2,215	3,352
Provisions for Impairment Losses on Equity Securities	(1,033)	(1,033)	(1,033)	(1,033)
	23,204	**24,933**	**23,204**	**24,933**
Accrued Interests Not Yet Due	27,292	30,426	27,292	30,426
Total	**4,601,297**	**4,158,035**	**4,601,297**	**4,158,035**

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Movement in Impairment Allowance for Financial Assets at Fair Value through Other Comprehensive Income

Group and Bank	2021 HRK '000			2020 HRK '000		
	Individually Expected Losses	Portfolio Based Expected Losses (in equity)	Total	Individually Identified Losses	Portfolio Based Expected Losses (in equity)	Total
At January 1	**1,033**	**14,802**	**15,835**	1,033	14,225	15,258
Increase Impairment Losses	-	6,410	**6,410**	-	577	**577**
At December 31	**1,033**	**21,212**	**22,245**	**1,033**	**14,802**	**15,835**

All financial assets of the Group and the Bank that are measured at fair value through other comprehensive income are in stage 1 and there has been no transfer between stages in the year.

10. FINANCIAL ASSETS AT AMORTISED COST

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Corporative Bonds	300	900	300	900
Bills of Exchange	158	1,191	158	1,191
	458	**2,091**	**458**	**2,091**
Provisions for Impairment Losses	-	(90)	-	(90)
Portfolio Based Impairment Losses	(5)	(26)	(5)	(26)
Total	**453**	**1,975**	**453**	**1,975**

Movement in Impairment Allowance for Financial Assets at Amortized Cost

Group and Bank			**2021 HRK '000**			**2020 HRK '000**
	Expected losses	**Portfolio Based Expected Losses**	**Total**	**Identified losses**	**Portfolio Based Identified Losses**	**Total**
Balance at January 1	**90**	**26**	**116**	**150**	**152**	**302**
Increase/ (Decrease) of Impairment Losses	(90)	(21)	(111)	(60)	(126)	(186)
Balance at December 31	**-**	**5**	**5**	**90**	**26**	**116**

10. FINANCIAL ASSETS AT AMORTISED COST (continued)

Group and Bank

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**1,191**	**-**	**900**	**2,091**
Arisen or purchased new assets – derecognized or paid off assets (excluding writte-offs)	(1,191)	460	(900)	(1,631)
Balance at 31 December 2021	**-**	**460**	**-**	**460**
Expected Credit Losses at 1 January 2021	**(26)**	**-**	**(90)**	**(116)**
Arisen or purchased new assets – derecognized or paid off assets (excluding writte-offs)	26	(5)	90	111
Expected Credit Losses at 31 December 2021	**-**	**(5)**	**-**	**(5)**

Group i Bank

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**2,665**	**432**	**1,500**	**4,603**
Arisen or purchased new assets – derecognized or paid off assets (excluding writte-offs)	(1,473)	(432)	(600)	(2,505)
Balance at 31 December 2020	**1,191**	**-**	**900**	**2,091**
Expected Credit Losses at 1 January 2020	**(105)**	**(47)**	**(150)**	**(302)**
Arisen or purchased new assets – derecognized or paid off assets (excluding writte-offs)	78	47	60	186
Expected Credit Losses at 31 December 2020	**(26)**	**-**	**(90)**	**(116)**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Short-Term Loans				
Corporate	1,261,430	1,700,285	1,261,284	1,700,285
Retail	948,040	950,314	948,040	950,314
Total Short-Term Loans	**2,209,470**	**2,650,600**	**2,209,324**	**2,650,600**
Long-Term Loans				
Corporate	6,094,990	6,588,130	6,094,990	6,588,130
Retail	7,375,842	6,937,989	7,375,842	6,937,989
Total Long-Term Loans	**13,470,832**	**13,526,119**	**13,470,832**	**13,526,119**
Accrued Gross Interest Due	114,910	111,729	114,910	111,729
Accrued Gross Interest Not Yet Due	9,652	15,285	9,652	15,285
Total Gross Loans	**15,804,864**	**16,303,732**	**15,804,718**	**16,303,732**
Provisions for Impairment Losses	**(1,308,291)**	**(1,328,007)**	**(1,308,291)**	**(1,328,007)**
Portfolio Based Impairment Allowance for Identified Losses	**(244,772)**	**(252,955)**	**(244,772)**	**(252,955)**
Total	**14,251,800**	**14,722,770**	**14,251,654**	**14,722,770**
Total Impairment Allowance and Provisions as a Percentage of Gross Loans to Customers	9.83%	9.77%	9.83%	9.77%

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in Impairment Allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group			2021 HRK '000			2020 HRK '000
	Individually Expected Losses	Portfolio Based Expected Losses	Total	Individually Expected Losses	Portfolio Based Expected Losses	Total
Balance at January 1	**1,328,007**	**252,955**	**1,580,962**	**1,338,102**	**198,147**	**1,536,249**
Increase/(decrease) of Impairment Losses	66,324	(8,015)	**58,309**	86,878	54,200	**141,079**
Net Foreign Exchange Loss	(342)	(168)	**(510)**	1,487	608	**2,095**
Write-Offs	(111,221)	-	**(111,221)**	(103,035)	-	**(103,035)**
Other	25,523	-	**25,523**	4,575	-	**4,575**
Balance at December 31	**1,308,291**	**244,772**	**1,553,063**	**1,328,007**	**252,955**	**1,580,962**

Bank			2021 HRK '000			2020 HRK '000
	Individually Expected Losses	Portfolio Based Expected Losses	Total	Individually Expected Losses	Portfolio Based Expected Losses	Toatl
Balance at January 1	**1,328,007**	**252,955**	**1,580,962**	**1,338,102**	**198,147**	**1,536,249**
Increase/(decrease) of Impairment Losses	66,324	(8,015)	**58,309**	86,878	54,200	**141,079**
Net Foreign Exchange Loss	(342)	(168)	**(510)**	1,487	608	**2,095**
Write-Offs	(111,221)	-	**(111,221)**	(103,035)	-	**(103,035)**
Other	25,523	-	**25,523**	4,575	-	**4,575**
Balance at December 31	**1,308,291**	**244,772**	**1,553,063**	**1,328,007**	**252,955**	**1,580,962**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2021 was as follows:

Group and Bank
2021

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**13,412,293**	**763,209**	**2,128,229**	**16,303,730**
Arisen or purchased new assets	3,112,066	340,339	64,966	3,517,371
Derecognized or paid off assets (excluding writte-offs)	(3,353,479)	(297,794)	(248,863)	(3,900,136)
Transfer into Stage 1	64,536	(57,579)	(6,957)	-
Transfer into Stage 2	(647,041)	678,510	(31,469)	-
Transfer into Stage 3	(206,621)	(148,394)	355,015	-
Modification based changes (do not result with derecognition)	1,908	(592)	(5,644)	(4,329)
Write-offs	(134)	(145)	(111,494)	(111,773)
Balance at 31 December 2021	**12,383,527**	**1,277,552**	**2,143,784**	**15,804,864**
Expected credit losses at 1 January 2021	**(172,023)**	**(80,512)**	**(1,328,426)**	**(1,580,961)**
Arisen or purchased new assets	(26,956)	(16,060)	(8,355)	(51,371)
Derecognized or paid off assets (excluding writte-offs))	50,150	13,799	58,705	122,654
Transfer into Stage 1	(5,534)	4,785	749	-
Transfer into Stage 2	19,784	(21,488)	1,705	-
Transfer into Stage 3	5,313	13,964	(19,277)	-
Change in expected credit loss	(6,819)	(23,174)	(124,613)	(154,606)
Write-offs	-	-	111,221	111,221
Expected credit losses at 31 December 2021	**(136,085)**	**(108,687)**	**(1,308,291)**	**(1,553,064)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group and Bank were as follows:

HRK '000	POCI
Net balance at 1 January 2021	**176,014**
Arisen or purchased new assets	690
Derecognized or paid off assets (excluding write-offs)	(22,950)
Other	(93)
Net balance at 31 December 2021	**153,660**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2021 was as follows:

Group and Bank
2020

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**12,185,916**	**717,261**	**1,972,093**	**14,875,271**
Arisen or purchased new assets	3,964,983	96,120	284,714	**4,345,818**
Derecognized or paid off assets (including derecognition)	(2,458,640)	(123,525)	(206,077)	**(2,788,242)**
Transfer into Stage 1	216,072	(190,405)	(25,667)	-
Transfer into Stage 2	(295,938)	352,279	(56,341)	-
Transfer into Stage 3	(194,719)	(88,238)	282,956	-
Modification based changes (do not result with derecognition)	(4,883)	397	1,099	**(3,386)**
Write-offs	(498)	(682)	(124,549)	**(125,729)**
Balance at 31 December 2020	**13,412,293**	**763,209**	**2,128,229**	**16,303,732**
Expected credit losses at 1 January 2020	**(130,939)**	**(66,894)**	**(1,338,416)**	**(1,536,249)**
Arisen or purchased new assets	(45,860)	(5,443)	(40,870)	**(92,174)**
Derecognized or paid off assets (including derecognition)	16,897	2,594	35,954	**55,445**
Transfer into Stage 1	(12,102)	10,714	1,388	-
Transfer into Stage 2	8,144	(9,970)	1,827	-
Transfer into Stage 3	3,144	9,657	(12,801)	-
Change in expected credit loss	(11,306)	(21,172)	(78,542)	**(111,020)**
Write-offs	-	-	103,035	**103,035**
Expected credit losses at 31 December 2020	**(172,023)**	**(80,513)**	**(1,328,426)**	**(1,580,962)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group and Bank were as follows:

HRK '000	POCI
Net balance at 1 January 2020	**95,653**
Arisen or purchased new assets	114,768
Derecognized or paid off assets (excluding write-offs)	(34,407)
Write-offs	-
Net balance at 31 December 2020	**176,014**

12. ASSETS HELD FOR SALE

During 2021, the Bank reclassified investments in real estate in the amount of HRK 9,200 thousand (Note 15) to assets held for sale

Investment into assets held for sale by asset type was as follows:

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Equity Stakes – net	9,200	-	9,200	-
Total as of December 31	**9,200**	**-**	**9,200**	**-**

Movement in Asset held for sale was as follows:

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Balance at 1 January	**-**	**-**	**-**	**-**
Reclassification from investment property to assets held for sale	9,200	-	9,200	-
Balance at 31 December	**9,200**	**-**	**9,200**	**-**

13. INVESTMENTS IN SUBSIDIARIES

a) The Bank's subsidiaries are as follows:

	Industry	Domicile	Ownership at December 31, 2021
HPB Invest Ltd	Investment Fund Management	Croatia	100%
HPB-nekretnine Ltd.	Real Estate Agency and Construction	Croatia	100%

b) Investments in Subsidiaries that are fully consolidated in financial reports of the Group, are as follows:

	2021 HRK '000	2020 HRK '000
HPB Invest Ltd	5,000	5,000
HPB Nekretnine Ltd	4,761	4,761
Total	**9,761**	**9,761**

The following table presents summary financial information on subsidiaries:

	2021 HRK '000	2020 HRK '000
Short Term Assets	11,288	9,561
Long Term Assets	7,373	8,380
Short Term Liabilities	(2,361)	(1,753)
Long Term Liabilities	(222)	(629)
Net Assets, Book Value of Subsidiaries	**16,078**	**15,559**
Share of Revenue and Profit of Subsidiaries	**100%**	**100%**
Revenue	16,783	17,985
Net profit	1,418	1,322

c) Movements of Investments in Subsidiaries:

During 2020, the Bank converted its receivables from HPB Nekretnine into an increase in the capital of that member of the Group.

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE

Group				**IFRS 16**		
2021 HRK '000	**Land and Buildings**	**Computers, equipment and motor vehicles**	**Assets Under Constr-uction**	**Building and land**	**Computers, equipment and motor vehicles**	**Total**
Purchase Cost (Revaluated)						
Balance at January 1 2021	**237,845**	**219,679**	**(3,052)**	**129,836**	**27,651**	**611,958**
Increase / Revaluation of land	554	-	-	-	-	**554**
Decrease/ Revaluation of land	(650)	-	-	-	-	**(650)**
Increase/ Revaluation of buildings	6,050	-	-	-	-	**6,050**
Decrease / Revaluation of building	(83)	-	-	-	-	**(83)**
Additions	-	91	26,398	131	8,582	**35,202**
Write-offs and other reductions	(1,088)	(11,265)	-	(8,718)	(47)	**(21,118)**
Transferred into Use	13,493	12,875	(26,368)	-	-	**-**
Balance at December 31 2021	**256,121**	**221,380**	**(3,022)**	**121,249**	**36,186**	**631,913**
Accumulated Depreciation						
Balance at January 1, 2021	**(108,983)**	**(197,783)**	**-**	**(36,805)**	**(9,388)**	**(352,958)**
Depreciation Cost	(4,832)	(13,237)	-	(18,602)	(5,433)	**(42,104)**
Write-offs	689	11,096	-	-	-	**11,785**
Balance at December 31 2021	**(113,126)**	**(199,924)**	**-**	**(55,407)**	**(14,820)**	**(383,277)**
Net Book Value						
Balance at January 1 2021	128,861	21,896	(3,052)	93,031	18,264	**259,000**
Balance at December 31 2021	**142,571**	**21,879**	**(3,022)**	**65,842**	**21,366**	**248,636**

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Group 2020 HRK '000	Land and Buildings	Computers, equipment and motor vehicles	Assets Under Constr-uction	IFRS 16 Building and land	IFRS 16 Computers, equipment and motor vehicles	Total
Purchase Cost (Revaluated)						
Balance at January 1 2020	**233,884**	**253,919**	**(3,418)**	**100,368**	**25,750**	**610,503**
Reclassification and correction of previous periods	5,803	-	-	-	-	**5,803**
Balance at January 1 2020 corrected	**239,687**	**253,919**	**(3,418)**	**100,368**	**25,750**	**616,306**
Increase / Revaluation of land	1,725	-	-	32,509	1,902	**36,136**
Decrease / Revaluation of building	(7,533)	36	-	182	-	**(7,316)**
Additions	-	-	13,899	-	-	**13,899**
Write-offs and other reductions	(707)	(43,138)	-	(3,222)	-	**(47,067)**
Transferred into Use	4,672	8,862	(13,533)	-	-	**1**
Balance at December 31 2020	**237,845**	**219,679**	**(3,052)**	**129,836**	**27,651**	**611,958**
Accumulated Depreciation						
Balance at January 1, 2020	**(102,652)**	**(226,136)**	**-**	**(17,657)**	**(4,457)**	**(350,903)**
Reclassification and correction of previous periods	(1,695)	-	-	-	-	**(1,695)**
Balance at January 1 2020 corrected	**(104,347)**	**(226,136)**	**-**	**(17,657)**	**(4,457)**	**(352,598)**
Depreciation Cost	(4,636)	(14,448)	-	(19,148)	(4,931)	**(43,162)**
Revaluation of land and building	-	-	-	-	-	**-**
Write-offs	-	42,802	-	-	-	**42,802**
Balance at December 31 2020	**(108,983)**	**(197,782)**	**-**	**(36,805)**	**(9,388)**	**(352,958)**
Net Book Value						
Balance at January 1 2020	135,340	27,782	(3,418)	82,711	21,293	**257,905**
Balance at December 31 2020	**128,861**	**21,896**	**(3,052)**	**93,031**	**18,264**	**259,000**

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Assets under construction as of 31 December 2021 refer to investments in equipment and construction objects at purchase cost of HRK 3,022 thousand (2020: HRK 3,052 thousand). The carrying amount of the land owned by the Group as at 31 December 2021 amounts to HRK 19,055 thousand (2020: HRK 19,564 thousand).

Bank				IFRS 16		
2021 HRK '000	**Land and Buildings**	**Computers, equipment and motor vehicles**	**Assets Under Constr-uction**	**Building and land**	**Computers, equipment and motor vehicles**	**Total**
Balance at January 1 2020	**210,271**	**200,398**	**1,431**	**129,774**	**27,668**	**569,542**
Increase / Revaluation of land	554	-	-	-	-	**554**
Decrease / Revaluation of building	(650)	-	-	-	-	**(650)**
Decrease/ Revaluation of land	6,050	-	-	-	-	**6,050**
Increase/ Revaluation of buildings	(83)	-	-	-	-	**(83)**
Additions	-		26,398	-	8,582	**34,980**
Write-offs and other reductions	(1,088)	(11,188)	-	(8,664)	(47)	**(20,987)**
Transferred into Use	13,493	12,875	(26,368)	-	-	**-**
Balance at December 31 2021	**228,547**	**202,085**	**1,461**	**121,110**	**36,203**	**589,407**
Accumulated Depreciation						
Balance at January 1, 2021	**(93,189)**	**(172,001)**	**-**	**(36,608)**	**(9,388)**	**(311,187)**
Depreciation Cost	(4,832)	(13,181)	-	(18,395)	(5,433)	**(41,841)**
Write-offs	689	11,041	-	-	-	**11,730**
Balance at December 31 2021	**(97,332)**	**(174,141)**	**-**	**(55,003)**	**(14,820)**	**(341,297)**
Net Book Value						
Balance at January 1 2021	117,082	28,397	1,431	93,165	18,280	**258,356**
Balance at December 31 2021	**131,215**	**27,944**	**1,461**	**66,107**	**21,382**	**248,110**

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Bank

2020 HRK '000	Land and Buildings	Computers, equipment and motor vehicles	Assets Under Constr-uction	IFRS 16 Building and land	IFRS 16 Computers, equipment and motor vehicles	Total
Purchase Cost (Revalueted)						
Balance at January 1 2020	**206,311**	**235,282**	**1,065**	**100,479**	**25,766**	**568,903**
Reclassification and correction of previous periods	5,803	-	-	-	-	**5,803**
Balance at January 1, corrected	**212,114**	**235,282**	**1,065**	**100,479**	**25,766**	**574,706**
Increase / Revaluation of land	1,725	-	-	32,509	1,902	**36,136**
Decrease / Revaluation of building	(7,533)	-	-	-	-	**(7,533)**
Additions	-	-	13,899	-	-	**13,899**
Write-offs and other reductions	(707)	(43,745)	-	(3,214)	-	**(47,666)**
Transferred into Use	4,672	8,862	(13,533)	-	-	**1**
Balance at December 31 2020	**210,271**	**200,398**	**1,431**	**129,774**	**27,668**	**569,543**
Accumulated Depreciation						
Balance at January 1, 2020	**(86,858)**	**(200,400)**	**-**	**(17,657)**	**(4,457)**	**(309,372)**
Reclassification and correction of previous periods	(1,695)	-	-	-	-	**(1,695)**
Balance at January 1, corrected	**(88,553)**	**(200,400)**	**-**	**(17,657)**	**(4,457)**	**(311,067)**
Depreciation Cost	(4,636)	(14,395)	-	(18,951)	(4,931)	**(42,913)**
Revaluation of land and building	-	-	-	-	-	**-**
Write-offs	-	42,793	-	-	-	**42,793**
Balance at December 31 2020	**(93,189)**	**(172,002)**	**-**	**(36,606)**	**(9,388)**	**(311,187)**
Net Book Value						
Balance at January 1 2020	123,561	34,882	1,065	82,822	21,309	**263,639**
Balance at December 31 2020	**117,082**	**28,397**	**1,431**	**93,165**	**18,280**	**258,356**

Assets under constructions as at 31 December 2021 relate to investments in equipment and buildings at a cost of HRK 1,461 thousand (2020: HRK 1,431 thousand). The carrying amount of land owned by the Bank as at 31 December 2021 was HRK 19,055 thousand (2020: HRK 19,564 thousand).

There is no mortgage or other lien on the property owned by the Bank in favor of other parties.

Right of Use Asset (RoU) as at 31 December 2021 amounted to HRK 87,489 thousand (2020: HRK 111,445 thousand). Assets with the right of use are recognized in the entity's functional currency and depreciated on a straight-line basis over the term of the lease.

15. INVESTMENT PROPERTY

Group	Note	2021 HRK '000	2020 HRK '000
Purchase Cost			
Balance as at January 1		256,086	247,983
Additions		4,382	12,104
Reclasification to Assets held for sale		(57,673)	-
Disposals		(16,542)	(4,001)
Balance as at December 31		**186,253**	**256,086**
Accumulated Depreciation			
Balance as at January 1		(3,853)	(3,430)
Amortization for the Year (subsidiary)		(423)	(424)
Balance as at December 31		**(4,277)**	**(3,853)**
Impairment Loss			
Balance at January 1		(178,803)	(171,794)
Impairment		2,436	(8,712)
Reclasification to Assets held for sale		48,473	-
Disposals		13,559	1,703
Balance at December 31		**(114,335)**	**(178,803)**
Net Book Value			
Balance as at January 1		73,430	72,759
Balance as at December 31		**67,642**	**73,430**

Bank	2021 HRK '000	2020 HRK '000
Purchase Cost		
Balance as at January 1	244,796	236,693
Additions	4,382	12,104
Reclasification to Assets held for sale	(57,673)	-
Disposals	(16,542)	(4,001)
Balance as at December 31	**174,964**	**244,796**
Impairment Loss		
Balance as at January 1	(178,803)	(171,794)
Impairment	2,436	(8,712)
Reclasification to Assets held for sale	48,473	-
Disposal	13,559	1,703
Balance as at December 31	**(114,335)**	**(178,803)**
Net Book Value		
Balance as at January 1	65,993	64,899
Balance at December 31	**60,629**	**65,993**

15. INVESTMENT PROPERTY (continued)

Assets taken over in exchange for uncollected receivables classified as investments in real estate as at 31.12.2021. has a gross book value of HRK 172,358 thousand. The value adjustment based on the assessment of value with the application of the discount factor of marketability related to real estate investment amounts to HRK 111,729 (2020: HRK 1,878,803 thousand), so the net book value of these assets amounts to HRK 60,629 thousand (2020: HRK 65,993 thousand).

Fair value hierarchy of investment properties as at December 31, 2021 and December 31, 2020 was as follows:

Group **31.12.2021:**	**Level 1**	**Level 2**	**Level 3**	**Fair Value as at December 31 2021**
- Land	-	-	41,203	41,203
- Buildings	-	-	25,223	25,223
- Equipment	-	-	1,216	1,216
TOTAL	**-**	**-**	**67,642**	**67,642**

Group **31.12.2020:**	**Level 1**	**Level 2**	**Level 3**	**Fair Value as at December 31 2020.**
- Land	-	-	38,540	38,540
- Buildings	-	-	33,674	33,674
- Equipment	-	-	1,216	1,216
TOTAL	**-**	**-**	**73,430**	**73,430**

Bank **31.12.2021:**	**Level 1**	**Level 2**	**Level 3**	**Fair Value as at December 31 2021**
- Land	-	-	40,538	40,538
- Buildings	-	-	18,875	18,875
- Equipment	-	-	1,216	1,216
TOTAL	**-**	**-**	**60,629**	**60,629**

Bank **31.12.2020:**	**Level 1**	**Level 2**	**Level 3**	**Fair Value as at December 31 2020**
- Land	-	-	37,875	37,875
- Buildings	-	-	26,902	26,902
- Equipment	-	-	1,216	1,216
TOTAL	**-**	**-**	**65,993**	**65,993**

Disclosure of the investment valuation in real estate is presented in Note 3. Property is assessed in accordance with the Real Estate Estimates Act (OG 78/2015) and the related Property Ordinance (NN 105/2015), according to law prescribed and appropriate methods consideration is given to a number of factors in determining its current market value. The valuation method has not changed during the year.

During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

16. INTANGIBLE ASSETS

Group

2021. HRK '000	Software	Leasehold Improve-ments	Licenses	Assets Under Constru-ction	Total
Cost					
Balance as at January 1	**300,984**	**92,636**	**69,091**	**15,144**	**477,855**
Increase	-	-	-	27,486	**27,486**
Transferred into Use	25,620	3,476	7,053	(36,161)	**(12)**
Amounts Written-Off	-	(620)	-	-	**(620)**
Balance as at December 31	**326,604**	**95,492**	**76,144**	**6,469**	**504,709**
Accumulated Amortization					
Balance as at January 1	**(268,875)**	**(61,268)**	**(56,481)**	**-**	**(386,624)**
Depreciation cost	(14,111)	(5,914)	(5,271)	**-**	**(25,296)**
Amounts Written-Off	**-**	592	**-**	**-**	**592**
Balance as at December 31	**(282,986)**	**(66,590)**	**(61,752)**	**-**	**(411,328)**
Net Book Value					
Balance as at January 1	**32,109**	**31,368**	**12,610**	**15,144**	**91,231**
Balance as at December 31	**43,618**	**28,902**	**14,392**	**6,469**	**93,381**

Group

2020. HRK '000	Software	Leasehold Improve-ments	Licenses	Assets Under Constru-ction	Total
Cost					
Balance as at January 1	**308,780**	**96,067**	**83,472**	**18,297**	**506,616**
Increase	-	707	-	13,537	**14,244**
Transferred into Use	12,121	913	3,655	(16,690)	**-**
Amounts Written-Off	(19,917)	(5,051)	(18,036)	-	**(43,004)**
Balance as at December 31	**300,984**	**92,636**	**69,091**	**15,144**	**477,855**
Accumulated Amortization					
Balance as at January 1	**(268,130)**	**(60,240)**	**(68,116)**	**-**	**(396,486)**
Depreciation cost	(20,662)	(6,032)	(6,348)	-	**(33,042)**
Amounts Written-Off	19,917	5,004	17,983	-	**42,904**
Balance as at December 31	**(268,875)**	**(61,268)**	**(56,481)**	**-**	**(386,624)**
Net Book Value					
Balance as at January 1	**40,650**	**35,827**	**15,356**	**18,297**	**110,130**
Balance as at December 31	**32,109**	**31,368**	**12,610**	**15,144**	**91,231**

Assets under construction as at 31 December 2021 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 6,469 thousand (2020: HRK 15,144 thousand), which are under construction due to future use by the Group.

16. INTANGIBLE ASSETS (continued)

Bank

2021. HRK '000	Software	Leasehold Improve-ments	Licenses	Assets Under Constru-ction	Total
Cost					
Balance as at January 1	**270,956**	**87,252**	**68,607**	**18,636**	**445,451**
Increase				27,472	**27,472**
Transferred into Use	20,620	3,476	7,053	(36,161)	**(12)**
Amounts Written-Off	-	(592)	-	-	**(592)**
Balance as at December 31	**296,576**	**90,136**	**75,660**	**9,947**	**472,319**
Accumulated Amortization					
Balance as at January 1	**(240,867)**	**(57,380)**	**(56,165)**	**-**	**(354,412)**
Depreciation cost	(13,995)	(5,914)	(5,271)	-	**(25,180)**
Amounts Written-Off	-	592	-	-	**592**
Balance as at December 31	**(254,862)**	**(62,702)**	**(61,436)**	**-**	**(379,000)**
Net Book Value					
Balance as at January 1	**30,089**	**29,872**	**12,442**	**18,636**	**91,039**
Balance as at December 31	**41,714**	**27,434**	**14,224**	**9,947**	**93,319**

Bank

2020. HRK '000	Software	Leasehold Improve-ments	Licenses	Assets Under Constru-ction	Total
Cost					
Balance as at January 1	**278,752**	**90,683**	**82,988**	**21,087**	**473,510**
Increase	-	707	-	14,239	14,946
Transferred into Use	12,121	913	3,655	(16,690)	(1)
Amounts Written-Off	(19,917)	(5,051)	(18,036)	-	(43,004)
Balance as at December 31	**270,956**	**87,252**	**68,607**	**18,636**	**445,451**
Accumulated Amortization					
Balance as at January 1	**(240,262)**	**(56,352)**	**(67,801)**	**-**	**(364,414)**
Depreciation cost	(20,522)	(6,032)	(6,348)	-	(32,902)
Amounts Written-Off	19,917	5,004	17,983	-	42,904
Balance as at December 31	**(240,867)**	**(57,380)**	**(56,165)**	**-**	**(354,412)**
Net Book Value					
Balance as at January 1	**38,491**	**34,331**	**15,188**	**21,087**	**109,096**
Balance as at December 31	**30,089**	**29,872**	**12,442**	**18,636**	**91,039**

Assets under construction as at 31 December 2021 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 9,948 thousand (2020: HRK 18,636 thousand), which are under construction due to future use by the Bank.

17. NET DEFERRED TAX ASSETS /LIABILITIES

a) Recognized Deferred Tax Assets and Liabilities (Group)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2021 are presented below:

Group 2021 HRK '000	2021	Income/ (expense) in the P&L Statement	Income/ (expense) in Other Comprehensive Income	2020
Deferred Tax Assets				
Loans and Advances to Customers	4,194	(18)	-	4,212
Other Provisions	1,907	-	-	1,907
Financial Assets	15,643	539	-	15,104
Deferred tax assets - impairment of land	4,748	-	-	4,748
Deferred tax assets - revaluation of own assets	132	132		-
Deferred tax assets - IFRS 16	329	-	-	329
Recognized tax loss	-	(8,334)	-	8,334
Deferred Tax Liabilities				
Borrowings	(510)	-	-	(510)
Actuarial profit / loss - IAS 19	251	-	251	-
Revaluation Reserve	(6,046)	-	(1,612)	(4,434)
Fair Value Reserve	(46,930)	-	6,243	(53,173)
Deferred Tax Assets, Net	**(26,282)**	**(7,681)**	**4,882**	**(23,483)**

Changes in temporary differences and portions of the Group's deferred tax assets and deferred tax liabilities in 2020 are presented as follows:

Group 2020 HRK '000	2020	Income/ (expense) in the P&L Statementt	Income/ (expense) in Other Compre-hensive Income	2019 (restated)	Restatement	2019 (previously reported)
Deferred Tax Assets						
Loans and Advances to Customers	4,212	(738)	-	4,950	-	4,950
Other Provisions	1,907	-	-	1,907	-	1,907
Financial Assets	15,104	1,549	-	13,556	-	13,556
Deferred tax assets - impairment of land	4,748	(311)	-	5,058	5,058	-
Deferred tax assets - IFRS 16	329	-	-	329	-	329
Fair Value Reserve	8,334	(45,464)	-	53,798	-	53,798
Deferred Tax Liabilities						
Borrowings	(510)	77	-	(587)	-	(587)
Revaluation Reserve	(4,434)	-	1,511	(5,943)	(5,798)	(145)
Fair Value Reserve	(53,173)	-	16,796	(69,968)	-	(69,968)
Deferred Tax Assets, Net	**(23,483)**	**(44,888)**	**18,306**	**3,100**	**(739)**	**3,839**

17. NET DEFERRED TAX ASSETS (continued)

b) Recognized Deferred Tax Assets and Liabilities (Bank)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2021 are presented below:

Bank 2021 HRK '000	2021	Income/ (expense) in the P&L Statement	Income/ (expense) in Other Comprehensive Income	2020
Deferred Tax Assets				
Loans and Advances to Customers	4,194	(18)	-	4,212
Other Provisions	1,907	-	-	1,907
Financial Assets	15,643	539	-	15,104
Deferred tax assets - impairment of land	4,748	-	-	4,748
Deferred tax assets - revaluation of own assets	132	132		-
Deferred tax assets - IFRS 16	329	-	-	329
Recognized tax loss	-	(8,334)	-	8,334
Deferred Tax Liabilities				
Borrowings	(510)	-	-	(510)
Actuarial profit / loss - IAS 19	251	-	251	-
Revaluation Reserve	(6,046)	-	(1,612)	(4,434)
Fair Value Reserve	(46,930)	-	6,243	(53,173)
Deferred Tax Assets, Net	**(26,282)**	**(7,681)**	**4,882**	**(23,483)**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2020 are presented below:

Bank 2020 HRK '000	2020	Income/ (expense) in the P&L Statementt	Income/ (expense) in Other Compre-hensive Income	2019 (restated)	Restatement	2019 (previously reported)
Deferred Tax Assets						
Loans and Advances to Customers	4,212	(738)	-	4,950	-	4,950
Other Provisions	1,907	-	-	1,907	-	1,907
Financial Assets	15,104	1,549	-	13,556	-	13,556
Deferred tax assets - impairment of land	4,748	(311)	-	5,058	5,058	-
Deferred tax assets - IFRS 16	329	-	-	329	-	329
Recognized tax loss	8,334	(45,464)	-	53,798	-	53,798
Deferred Tax Liabilities						
Borrowings	(510)	77	-	(587)	-	(587)
Revaluation Reserve	(4,434)	-	1,511	(5,943)	(5,798)	(145)
Fair Value Reserve	(53,173)	-	16,796	(69,968)	-	(69,968)
Deferred Tax Assets, Net	**(23,483)**	**(44,888)**	**18,306**	**3,100**	**(739)**	**3,839**

18. OTHER ASSETS

	Group		Bank	
HRK '000	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Fees Receivable	21,458	21,431	20,357	20,513
Items in Course of Collection*	31,100	28,279	31,100	28,279
Prepaid expenses	19,216	13,921	19,092	13,662
Other Receivables	72,823	73,164	72,688	72,955
Total Other Assets, Gross	**144,597**	**136,795**	**143,237**	**135,409**
Impairment Loss	(19,941)	(23,775)	(19,940)	(23,775)
Total	**124,656**	**113,019**	**123,297**	**111,634**

** The instruments used in the billing process relate mainly to the assets in the sale-purchase agreement effective in the amount of HRK 14,465 thousand (2020: HRK 13,607 thousand), as well as other accounts receivable (population, card transactions, payment transactions, effective sales etc.).*

Movements in Impairment Allowance

Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Balance at January 1	**23,775**	**22,971**	**23,775**	**22,971**
Increase in Impairment Losses	3,183	1,311	3,183	1,311
Foreign Exchange Currencies	200	(148)	200	(148)
Used Impairments and Other	(7,217)	(359)	(7,217)	(359)
Balance at December 31	**19,941**	**23,775**	**19,941**	**23,775**

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Negative Fair Value of Cross Currency Swaps	-	-	-	-
Negative fair value “swap”	-	21	-	21
Balance at December 31	**-**	**21**	**-**	**21**

20. DEPOSITS FROM BANKS

Group	2021 HRK '000			2020 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
A-vista deposits	25,460	2,557	**28,017**	12,665	8,593	**21,258**
Term Deposits	-	-	**-**	-	75,369	**75,369**
Interest Payable Not Yet Due	8	-	**8**	8	-	**8**
Total	**25,468**	**2,557**	**28,025**	**12,673**	**83,962**	**96,635**

Bank	2021 HRK '000			2020 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
A-vista deposits	25,460	2,557	**28,017**	12,665	8,593	**21,258**
Term Deposits	-	-	**-**	-	75,369	**75,369**
Interest Payable Not Yet Due	8	-	**8**	8	-	**8**
Total	**25,468**	**2,557**	**28,025**	**12,673**	**83,962**	**96,635**

21. DEPOSITS FROM CUSTOMERS

Group	2021 HRK '000			2020 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
A-vista deposits						
Retail	5,391,146	2,930,540	**8,321,686**	4,874,332	2,573,118	**7,447,449**
Corporate	4,861,926	1,691,163	**6,553,089**	4,561,505	981,375	**5,542,880**
Restricted Deposits						
Retail	151,710	112,707	**264,417**	8,893	6,503	**15,396**
Corporate	1,610,551	1,851,881	**3,462,433**	1,380,480	1,137,133	**2,517,614**
	12,015,334	**6,586,291**	**18,601,625**	**10,825,210**	**4,698,129**	**15,523,339**
Term Deposits						
Retail	1,366,648	2,376,772	**3,743,420**	1,712,786	2,633,743	**4,346,529**
Corporate	794,770	265,381	**1,060,151**	941,615	290,491	**1,232,105**
	2,161,418	**2,642,153**	**4,803,571**	**2,654,401**	**2,924,234**	**5,578,635**
Interests Payable - Not Yet Due	1,796	5,852	**7,649**	3,727	5,144	**8,872**
Total	**14,178,548**	**9,234,297**	**23,412,844**	**13,483,338**	**7,627,508**	**21,110,846**

Bank	2021 HRK '000			2020 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
A-vista deposits						
Retail	5,391,146	2,930,540	**8,321,686**	4,874,332	2,573,118	**7,447,449**
Corporate	4,871,124	1,691,211	**6,562,335**	4,569,046	981,423	**5,550,470**
Restricted Deposits						
Retail	151,710	112,707	**264,417**	8,893	6,503	**15,396**
Corporate	1,610,551	1,851,881	**3,462,433**	1,380,480	1,137,133	**2,517,614**
	12,024,531	**6,586,339**	**18,610,871**	**10,832,751**	**4,698,177**	**15,530,929**
Term Deposits						
Retail	1,366,647	2,376,772	**3,743,419**	1,712,785	2,633,743	**4,346,528**
Corporate	794,770	265,381	**1,060,151**	941,615	290,491	**1,232,105**
	2,161,417	**2,642,153**	**4,803,570**	**2,654,400**	**2,924,234**	**5,578,634**
Interests Payable - Not Yet Due	1,796	5,852	**7,649**	3,727	5,144	**8,872**
Total	**14,187,745**	**9,234,345**	**23,422,089**	**13,490,879**	**7,627,556**	**21,118,434**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Group	**2021 HRK '000**			**2020 HRK '000**		
	HRK	**Foreign Currency**	**Total**	**HRK**	**Foreign Currency**	**Total**
Long-term loans from CNB	400,000	-	**400,000**	400,000	-	**400,000**
Long-term loans from banks	-	98,769	**98,769**	-	121,850	**121,850**
Long-term loans CBRD - HRK and fx	806,117	-	**806,117**	828,629	-	**828,629**
Leasing	11,576	78,481	**90,057**	13,151	101,377	**114,528**
Accrued Interests Due	-	-	**-**	130	-	**130**
Accrued Interests not Yet Due	1,919	24	**1,943**	1,482	22	**1,503**
Total	**1,219,612**	**177,274**	**1,396,886**	**1,243,392**	**223,249**	**1,466,641**

Bank	**2021 HRK '000**			**2020 HRK '000**		
	HRK	**Foreign Currency**	**Total**	**HRK**	**Foreign Currency**	**Total**
Long-term loans from CNB	400,000	-	**400,000**	400,000	-	**400,000**
Long-term loans from banks	-	98,769	**98,769**	-	121,850	**121,850**
Long-term loans CBRD - HRK and fx	806,117	-	**806,117**	828,629	-	**828,629**
Leasing	11,576	78,481	**90,057**	13,151	101,377	**114,528**
Accrued Interests Due	-	-	**-**	130	-	**130**
Accrued Interests not Yet Due	1,919	24	**1,943**	1,482	22	**1,503**
Total	**1,219,612**	**177,274**	**1,396,886**	**1,243,392**	**223,249**	**1,466,641**

The Bank applied modified retrospective approaches in accordance with IFRS 16 and accounting policies, as the lessee used exceptional recognition for the lease of “low value” assets (EFTPOS devices) and short-term leases, i.e. leases with a 12-month or shorter period.

During the most recent period in 2021, the Bank recognized as an expense on a pro rata basis HRK 922 thousand (2020: HRK 988 thousand) for the leases of low value assets, or HRK 304 thousand (2020: HRK 272 thousand) for short-term leases.

VAT is exempt from accrued property and the lease obligation. The weighted average incremental borrowing rate at December 31, 2021 was 4.68 percent (December 31, 2020: 5.07%).

Changes in Lease Liabilities

	Bank and Group	
	2021 HRK '000	**2020 HRK '000**
Balance as of January 1st	114,528	105,959
New contracts	6,013	25,446
Modifications	1,172	1,734
Lease payments	(22,188)	(18,682)
Cesation	(9,480)	-
Exchange rate fluctuations	12	70
Balance at December 31	**90,057**	**114,528**

Future minimal Lease Payments

	Bank and Group	
	2021 HRK '000	**2020 HRK '000**
up to one year	20,362	23,099
from one to five years	51,930	56,240
over five years	17,765	35,190
Total	**90,057**	**114,528**

23. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Litigation Provisions	16,325	29,868	16,325	29,868
Provision for Contingent Liabilities	7,557	14,445	7,557	14,445
Provisions for Other Liabilities	26,148	26,596	26,148	26,596
Provisions for Off-Balance Sheet Exposures	32,225	43,348	32,225	43,348
Provisions for employees	5,827	2,166	5,762	2,166
Total	**88,080**	**116,424**	**88,015**	**116,424**

The most significant impact on the movement of provisions for litigation during 2020 was the reversal of provisions for litigation in the amount of HRK 89,111 thousand with regard to the second-instance judgment reversing the first-instance judgment and rejecting the claim ordering the Bank to pay the plaintiff. Additional provisions for the aforementioned dispute were formed in the last quarter of 2019 according to the then estimated probability of loss of disputes and outflows on them, which is the most significant impact of the movement on provisions for litigations in 2019.

In addition to the information presented above related to the movements of provisions per litigation during 2020 and 2019, the Bank had release of net provisions for litigation in 2021 in the amount of HRK 13,544 thousand (2020: HRK 2,491 thousand).

In 2021, item Provisions for employees was transferred from Note 24. Other liabilities.

Movements in Provisions for Liabilities and Expenses

The movements in provisions for liabilities and expenses were as follows:

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Balance at January 1	116,424	182,595	116,424	182,595
Increase/ (Decrease) in Provisions in the P&L Account	307	(56,744)	307	(56,744)
Other	(28,651)	(9,427)	(28,716)	(9,427)
Balance at December 31	**88,080**	**116,424**	**88,015**	**116,424**

24. OTHER LIABILITIES

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Trade Accounts Payable	14,866	9,588	14,638	9,328
Salaries Amounts to Be Withheld from Salaries, Taxes and Contributions	22,235	18,486	21,574	17,995
Provisions for Retirement Benefits, Termination Benefits and Similar Liabilities	7,457	9,265	7,457	9,265
Fees Payable	4,471	4,847	4,367	4,743
Items in Course of settlement	67,646	64,816	67,646	64,816
Prepaid Deferred Income	3,627	4,694	3,627	4,694
Other Liabilities	67,469	59,129	66,263	58,183
Total	**187,771**	**170,825**	**185,572**	**169,023**

In 2021, the item Provisions for employees was transferred to Note 23. Provisions for liabilities and charges

25. EQUITY AND RESERVES

a) Share Capital and treasury shares reserve

As at 31 December 2021, the authorized, registered and fully paid-up share capital of the parent company of the Group amounted to HRK 1,214,755 thousand (2020: 1,214,755 thousand) and included 2,024,625 (2020: 2,024,625) of the approved ordinary the nominal value of HRK 600.00.

At 31 December 2021, the Bank had 795 treasury shares (2020: 795) in the total amount of HRK 477 thousand (2020: HRK 477 thousand). Reserve for own shares as of 31 December 2021 amounted to HRK 4,477 thousand (2020: HRK 4,477 thousand).

The ownership structure is as follows:

	2021		2020	
	Paid-In Capital HRK '000	**Ownership %**	**Paid-In Capital HRK '000**	**Ownership %**
Republic of Croatia (Ministry of Physical Planning, Construction and State Property)	545,421	44.90%	515,421	42.43%
Croatian Post p.l.c.	144,966	11.93%	144,966	11.93%
Croatian deposit insurance agency	109,091	8.98%	109,091	8.98%
Croatian State Pension Insurance Fund (Ministry of Physical Planning, Construction and State Property)	106,387	8.76%	106,387	8.76%
Fund NEK	33,139	2.73%	28,727	2.36%
Others	275,772	22.70%	310,183	25.54%
Total	**1,214,775**	**100.00%**	**1,214,775**	**100.00%**

25. EQUITY AND RESERVES (continued)

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. In 2021 there were no capital gains from emitting new shares (2020: 0).

b) Fair Value Reserve

The fair value reserve includes unrealized gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of tax.

The movements of fair value reserve during 2021 and 2020 were as follows:

Group	2021 HRK '000	2021 HRK '000
Balance at January 1	**242,231**	**314,658**
Equity instruments in assets at other comprehensive income - net change in fair value	(1,553)	(6,402)
Net Unrealized (Loss)/Gain from Financial Assets at FV through OCI	(31,302)	(52,125)
The Cumulative Loss on the Sale of Financial Assets at FV through OCI Transferred to the P&L Report	-	(32,521)
Changes in actuarial gains	(3,219)	1,826
Deferred tax relating to the change in the revaluation of financial assets at fair value through other comprehensive income	6,493	16,796
Balance at December 31	**212,651**	**242,231**

Bank	2021 HRK '000	2021 HRK '000
Balance at January 1	**242.231**	**318.746**
Equity instruments in assets at other comprehensive income - net change in fair value	(1,553)	(6,402)
Net Unrealized (Loss)/Gain from Financial Assets at FV through OCI	(31,302)	(56,213)
The Cumulative Loss on the Sale of Financial Assets at FV through OCI Transferred to the P&L Report	-	(32,521)
Changes in actuarial gains	(3,219)	1,826
Deferred tax relating to the change in the revaluation of financial assets at fair value through other comprehensive income	6,493	16,796
Balance at December 31	**212,651**	**242,231**

25. EQUITY AND RESERVES (continued)

c) Revaluation Reserve

The revaluation reserve in the amount of HRK 22,286 thousand (2020: HRK 22:22,744 thousand), net of taxes, arises from the revaluation of the Bank's land and buildings. In 2021, the decrease in the revaluation reserve amounts to HRK 458 thousand (2020: decrease of HRK 6,023 thousand). The movement of the revaluation reserve during the reporting period 2021 and 2020 is as follows:

Group and Bank	2021 HRK '000	2021 HRK '000
Balance at January 1 (previously reported)	**22,744**	**659**
Restatement	-	28,108
Balance at January 1 (restated)	22,744	28,767
Decrease in the Revaluation Reserve on Depreciation of Assets	6,411	(7,533)
Deferred Tax Related to Revaluation Reserve	(1,612)	1,511
Balance at December 31	**27,543**	**22,744**

The restatement of previous periods relates to the adjustment of the redistribution of assets between construction and land, which had an impact on revaluation reserves and retained earnings with a total effect of HRK 3,368 thousand on the capital of the Bank and the Group.

d) Proposed Dividends

Dividend liabilities are not recognized until they are approved at the Shareholders' General Meeting. In 2021 there were no dividend payments (2020: there were no dividend payments).

e) Legal and other reserves

The Bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until the reserves reach 5% of the share capital.

Statutory reserves amounts to HRK 40,010 thousand for the Group and the Bank (2020: HRK 30,907 thousand for the Group and the Bank), prior to the distribution of result achieved in 2020, which is reported in the retained earnings position.

Other reserves for the Bank and the Group as at 31 December 2021 amount to HRK 657,992 thousand (2020: HRK 576,064 thousand).

f) Retained earnings

In March 2021, the General Assembly of the Bank passed a Decision to transfer part of the profit from 2020 in the amount of HRK 91,031 thousand to retained earnings within capital and reserves (2020: HRK 71,886 thousand) after allocating the legal reserve. Restructuring or reduction of retained earnings in 2020 in the amount of HRK 24,739 thousand relates to the adjustment of redistribution of assets between construction and land, which had an impact on revaluation reserves and retained earnings with a total effect of HRK 3,368 thousand on the Bank's and the Group's capita.

25. EQUITY AND RESERVES (continued)

g) Financial Leverage Ratio

In line with article 429 of Regulation EU 575/ 2013 calculation of financial leverage ratio between common Tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

	2021	2020
Omjer financijske poluge	9.14	8.64

26. INTEREST AND SIMILAR INCOME

a) Analysis by Product:

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Loans and Advances to Customers				
- Corporate	155,315	173,206	155,315	173,306
- Retail	332,187	332,305	332,187	332,305
	487,502	**505,510**	**487,502**	**505,611**
Loans and Advances to Customers	(3,625)	(1,347)	(3,625)	(1,347)
Debt Securities	72,293	81,201	72,293	81,201
Bills of Exchange	86	100	86	100
Total	**556,257**	**585,463**	**556,257**	**585,564**

b) Analysis by source

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Corporate	102,361	113,385	102,361	113,485
Retail	332,187	332,305	332,187	332,305
Government and Public Sector	124,404	139,945	124,404	139,945
Banks and Other Financial Institutions	(3,557)	(1,235)	(3,557)	(1,235)
Other Organizations	862	1,064	862	1,064
Total	**556,257**	**585,463**	**556,257**	**585,564**

27. INTEREST AND SIMILAR EXPENSE

a) Analysis by Product

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Borrowings	**11,995**	**12,886**	**11,995**	**12,886**
Customer Deposits				
- Corporate	9,475	13,718	9,475	13,718
- Retail	9,605	20,137	9,605	20,137
	19,080	**33,855**	**19,080**	**33,855**
Deposits from Banks	1,009	791	1,009	791
Other	64	704	62	697
Total	**32,148**	**48,236**	**32,146**	**48,229**

b) Analysis by Recipient

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Corporate	7,119	8,310	7,119	8,310
Retail	9,605	20,137	9,605	20,137
Government and Public Sector	1,077	2,752	1,077	2,752
Banks and other Financial Institutions	14,174	15,920	14,174	15,920
Others	173	1,116	170	1,109
Total	**32,149**	**48,236**	**32,146**	**48,229**

Within the Legal entity item, HRK 5,079 thousand relates to interest expense in accordance with IFRS16 (2020: HRK 5,342 thousand)

28. FEES AND COMMISSIONS INCOME

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Cash Payment Operations	217,314	219,683	217,314	219,683
Non-Cash Payment Operations	54,679	52,825	54,668	52,855
Retail and Credit Card Operations	172,414	141,735	172,414	141,735
Letters of Credit Guarantees and Foreign-Exchange Payment Operations	14,508	14,650	14,508	14,650
Other Fees and Commissions Income	31,138	27,963	24,073	21,234
Total	**490,053**	**456,855**	**482,976**	**450,156**

29. FEES AND COMMISSIONS EXPENSE

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Cash Payment Operations	193,961	194,662	193,961	194,662
Non-Cash Payment Operations	12,559	12,339	12,535	12,337
Card Operations	64,368	52,923	64,368	52,923
Other Fees and Commission Expense	20,718	15,216	19,236	13,966
Total	**291,606**	**275,141**	**290,100**	**273,889**

30. GAINS LESS LOSSES ARISING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Realized Gains/ (Losses)				
- Debt securities	(1,806)	-	(1,806)	-
- Equity Securities	30,800	17	30,800	17
- Investment Funds	(460)	44	(460)	44
- Forward Contracts, OTC	**28,534**	**61**	**28,534**	**61**
Unrealized Gains/ (Losses)				
- Debt securities	(5,595)	(7,007)	(5,595)	(7,007)
- Equity Securities	452	126	452	126
- Investment Funds	9,875	(914)	9,875	(914)
- Forward Contracts, OTC	21	(10)	21	(10)
	4,753	**(7,805)**	**4,753**	**(7,805)**
Net fx losses from monetary assets and liabilities revalorization	**(7,593)**	**(8,625)**	**(7,593)**	**(8,625)**
Total	**25,694**	**(16,369)**	**25,694**	**(16,369)**

31.a) NET GAINS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Realized Gains on Disposal of Debt Securities at FV through OCI	-	35,036	-	35,036
Total	**-**	**35,036**	**-**	**35,036**

31.b) NET GAINS FROM TRADING IN FOREIGN CURRENCIES

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Gains from trading in foreign currencies	53,533	51,471	53,533	51,471
Other trading in foreign currencies	3,943	3,342	3,943	3,342
Total	**57,476**	**54,812**	**57,476**	**54,812**

32. OTHER OPERATING INCOME

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Dividend Income	2,044	3,293	2,044	3,293
Income from sale of asset	5,029	2,308	5,029	2,308
Other income	17,711	12,618	13,980	6,415
Total	**24,784**	**18,219**	**21,053**	**12,016**

33. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Materials and Services	117,388	109,070	116,488	106,749
Administration and Marketing	8,828	9,398	8,792	9,386
Postage and Telecommunications	24,419	22,752	23,971	22,282
Staff Costs	249,606	234,860	243,811	229,153
Savings Deposit Insurance Costs	13,916	42,002	13,916	42,002
Other General and Administrative Expenses	35,944	24,903	35,421	24,304
Total	**450,102**	**442,985**	**442,399**	**433,877**

a) Employee Costs

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Net Salaries and Other Employee Costs	141,169	129,501	137,906	126,383
Taxes and Contributions (including contributions payable by employers	92,003	89,433	89,742	87,083
Provision for severance pay, jubilee awards, vol. employee vacations	1,095	3,392	1,095	3,392
Other Fees to Employees	15,117	12,297	14,956	12,176
Fees to Supervisory Board Members	223	237	112	119
Total	**249,606**	**234,860**	**243,811**	**229,153**

As at December 31, 2021, the Bank had 1,289 employees (2020: 1,301) and the Group had 1,315 employees (2020: 1,326).

34. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Notes	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Individually Identified / Expected Impairment Losses					
Loans to and Receivables from Customers	11	(67,348)	(86,878)	(67,348)	(86,878)
Financial Assets at FV through P&L	8	914	27,807	914	27,807
Financial Assets at FV through OCI	9	(6,410)	(577)	(6,410)	(577)
Financial Assets at Amortized Cost	10	90	(60)	90	(60)
Other Assets	18	(3,182)	(1,311)	(3,181)	(1,311)
Investment property	15	1,903	(8,712)	1,903	(8,712)
Tangible and intangible assets	14,16	192	1,725	192	1,725
Net (loss)/gains from (writte-off)/ collection of Placements Written-Off in Previous Years		(6)	842	(6)	842
Total Cost		**(73,846)**	**(67,164)**	**(73,846)**	**(67,164)**
Portfolio Based Identified / Expected Impairment Losses					
Loans to and Receivables from Customers	11	8,015	(54,074)	8,057	(54,074)
Financial Assets at Amortized Cost	10	21	(126)	21	(126)
Total revenue		**8,036**	**(54,200)**	**8,036**	**(54,200)**
Total Portfolio Based and Individually expected / Identified Losses					
Loans to and Receivables from Customers	11	(59,333)	(140,953)	(59,333)	(140,953)
Financial Assets at FV through P&L	8	914	27,807	914	27,807
Financial Assets at FV through OCI	9	(6,410)	(577)	(6,410)	(577)
Financial Assets at Amortized Cost	10	111	(186)	111	(186)
Other Assets	18	(3,181)	(1,311)	(3,181)	(1,311)
Investment property	15	1,903	(8,712)	1,903	(8,712)
Tangible and intangible assets	14,16	192	1,725	192	1,725
Gains from Recovery of Placements Written-Off in Previous Years		(6)	842	(6)	842
Total Cost		**(65,810)**	**(121,364)**	**(65,810)**	**(121,364)**

Identified losses on an individual basis related to financial assets at fair value through profit or loss relate to loans and receivables from customers who failed the SPPI test.

35. CORPORATE TAX

Total recognized corporate tax expense, calculated at the corporate tax rate of 18%, comprises corporate tax expense recognized in the P&L report and movements in deferred tax recognized in equity, as follows:

Income Tax Expense Recognized in the P&L Statement

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Current Tax	(36,139)	(298)	(35,887)	-
Used net DTA	(7,681)	(44,888)	(7,681)	(44,888)
Total Current Tax Recognized in the P&L Report	**(43,820)**	**(45,186)**	**(43,568)**	**(44,888)**

The movement of deferred tax assets and liabilities with recognition effects in other comprehensive income and the income statement is set out in Note 17. Net deferred tax assets / liabilities.

Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Profit Before Taxation	*246,445*	*228,570*	*245,675*	*226,950*
Income Tax at the Rate of 18%	(44,360)	(41,143)	(44,222)	(40,851)
Tax Non-Deductible Expenses	(2,830)	(11,872)	(2,628)	(11,863)
Non-Taxable Income	6,046	9,635	5,957	9,632
Recognized Deferred Tax Assets	5,005	(1,806)	5,005	(1,806)
	(36,139)	**(45,186)**	**(35,887)**	**(44,888)**
Effective Income Tax Rate	*14.66%*	*19.77%*	*14.61%*	*19.78%*

Recognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods

As at 31 December 2020, the Bank, as the parent company of the Group, had HRK 33,908 thousand of accumulated unused tax losses that it can use until 31 December 2024. Profit before tax after increase and decrease of the tax base amounted to HRK 239,343 thousand for 2020.

As at 31 December 2021, the Bank, as the parent company of the Group, did not have (2020: HRK 27,808 thousand) accumulated unused tax losses that it could use until 31 December 2024.

In 2021, all previously recognized tax assets with a total effect on the income statement in the amount of HRK 8,334 thousand were used.

36. EARNINGS PER SHARE

For the purpose of calculating earnings per share, earnings are accounted for as the profit / loss for the current period intended for the shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after the decrease of the number of regular treasury shares. The weighted average number of ordinary shares used in calculating the basic earnings per loss was 2,023,830 (2020: 2,023,830). Given that there is no effect on options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate the diluted / diluted earnings per share would be the same as the number used to calculate the basic earnings per share, or 2,023,830 (2020: 2,023,830), as shown below:

a) Basic Earnings Per Share

Profit and weighted average number of ordinary shares outstanding:

	2021 HRK '000	2020 HRK '000
Current Year Profit/ Distributable to the Bank's Owners	202,107	182,063
Profit Used to Calculate Basic Earnings Per Share	**202,107**	**182,063**
Weighted Average Ordinary Shares Outstanding Used to Calculate Basic Earnings Per Share	**2,023,830**	**2,023,830**
Basic Earnings Per Share from Active Operations	**99.86**	**89.96**

b) Diluted Earnings Per Share

Profit Used to Calculate Diluted Earnings Per Share	2021 HRK '000	2020 HRK '000
Profit Used to Calculate Earnings Per Share	202,107	182,063
Adjustments	-	-
Profit Used to Calculate Diluted Earnings Per Share	**202.107**	**182.063**

Adjustments of weighted average ordinary shares outstanding used to calculate diluted earnings per share compared to weighted average ordinary shares outstanding used to calculate earnings per share:

	2021	2020
Weighted Average Ordinary Shares Outstanding Used to Calculate Earnings Per Share	**2,023,830**	**2,023,830**
Shares Issued Without Cost:		
- Options for Employees	-	-
- Partially Payed Ordinary Shares	-	-
- Convertible Bonds	-	-
- Other	-	-
Weighted Average Ordinary Shares Outstanding Used to Calculate Diluted Earnings Per Share	**2,023,830**	**2,023,830**
Diluted Earnings Per Share	**99.86**	**89.96**

37. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Giro Account with the CNB	5	4,354,286	2,246,485	4,354,286	2,246,485
Mandatory Reserve with the Croatian National Bank	6	1,326,442	1,219,157	1,326,442	1,219,157
Bonds of the Republic of Croatia		4,465,745	4,460,155	4,465,745	4,460,155
Treasury Bills of the Croatian Ministry of Finance		376,071	188,212	376,071	188,212
Loans and Advances to the Republic of Croatia		1,691,852	2,192,767	1,691,852	2,192,767
Deposits from the Republic of Croatia		(4,422,236)	(3,207,102)	(4,422,236)	(3,207,102)
Total		**7,792,159**	**7,099,675**	**7,792,159**	**7,099,675**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Loans	1,381,522	1,446,454	1,381,522	1,446,454
Deposits	(674,425)	(463,745)	(674,425)	(463,745)
Total	**707,097**	**982,709**	**707,097**	**982,709**

38. CASH AND CASH EQUIVALENTS

		Group		Bank	
	Notes	2021 HRK '000	2020 HRK '000	2021 HRK '000	2020 HRK '000
Cash and Amounts Due from Banks	5	6,192,555	3,684,942	6,192,515	3,684,902
Deposits with Banks with Original Maturities of Up to 90 Days		277,696	368,360	277,696	368,360
Items in Course of Collection	18	31,100	28,279	31,100	28,279
Total		**6,501,351**	**4,081,581**	**6,501,311**	**4,081,541**

39. CONTINGENT LIABILITIES

	Group		Bank	
	2021 HRK '000	**2020 HRK '000**	**2021 HRK '000**	**2020 HRK '000**
Guarantees Denominated in HRK	429,026	334,258	429,026	334,258
Guarantees Denominated in Foreign Currency	61,632	54,562	61,632	54,562
Letters of Credit	9,888	9,844	9,888	9,844
Undrawn Lending Commitments	2,176,448	1,932,285	2,176,448	1,932,285
Total	**2,676,993**	**2,330,948**	**2,676,993**	**2,330,948**

As at December 31, 2021, the Group and the Bank recognized the provision based on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loans in the amount of HRK 32,225 thousand (2020: Bank and Group HRK 43,348 thousand) included in Provisions for liabilities and expenses (Note 23).

40. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank and Group had the following derivative contracts, accounted for as trading instruments, open at year-end:

Group	**Contracted Amount, Remaining Life**					**Fair Value**	
2021 HRK '000	**Up to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Assets**	**Liabili-ties**
Cross Currency Swap Contracts - OTC	75,450	-	-	-	75,450	-	-
Total	**75,450**	**-**	**-**	**-**	**75,450**	**-**	**-**

Bank	**Contracted Amount, Remaining Life**					**Fair Value**	
2021 HRK '000	**Up to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Assets**	**Liabili-ties**
Cross Currency Swap Contracts - OTC	75,450	-	-	-	75,450	-	-
Total	**75,450**	**-**	**-**	**-**	**75,450**	**-**	**-**

41. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska Poštanska Bank Group.

Key shareholders of the Bank are the Republic of Croatia as the largest shareholder with an ownership stake of 44.90 percent, and Hrvatska Pošta d.d. (“HP”) with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution (“HAOD”), the Croatian Pension Insurance Institute (“HZMO”) and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of radioactive waste and spent nuclear fuel (“NEK fund”). These shareholders together own 77.42% of the Bank's shares (2020: 74.46%). The remaining 22.58% (2020: 25.54%) are publicly traded.

a) Key Transactions with Related Parties

Hrvatska Pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska Pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska Pošta d.d. Liabilities towards Hrvatska Pošta d.d. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 37, Concentration of assets and liabilities.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management did not have regular shares at the end of the reporting period (2020: -).

41. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties

Assets and liabilities and off-balance sheet exposure and income and expense as at and for the years ended December 31, 2021 and December 31, 2020 of the Group and Bank, arising from transactions with related parties were as follows:

Group

2021 **HRK '000**	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Republic of Croatia				
Hrvatska Pošta d.d.	185,341	204,964	229,728	227,562
Subsidiaries				
HPB Invest	-	-	-	-
HPB Nekretnine	-	-	-	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	373	2,800	21	19,871
Long-Term Benefits (loans and deposits)	3,599	486	203	201
Companies Under Significant Influence	**-**	**-**	**6**	**-**
Total	**189,313**	**208,250**	**229,958**	**247,634**

2020 **HRK '000**	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	216,793	231,773	230,555	229,508
Subsidiaries				
HPB Invest	-	-	-	-
HPB Nekretnine	-	-	-	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	665	2,186	10	22,690
Long-Term Benefits (loans and deposits)	3,635	621	97	312
Companies Under Significant Influence	**20,000**	**750**	**7**	**22**
Total	**241,093**	**235,330**	**230,669**	**252,532**

** The exposure includes advances in cash and in kind, contingent liabilities and commitments, interest and other receivables and includes HRK 20,227 thousand (2020: HRK 16,046 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or provisions for losses.*

41. RELATED PARTY TRANSACTIONS (continued)
b) Amounts arising from transactions with related parties

Bank

2021 **HRK '000**	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Republic of Croatia				
Hrvatska Pošta d.d.	185,341	204,964	229,728	227,562
Subsidiaries				
HPB Invest Ltd	5,076	6,016	2,824	-
HPB Nekretnine d.o.o.	4,875	6,734	314	1,937
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	268	2,800	16	18,256
Long-Term Benefits (loans and deposits)	2,493	486	145	18
Companies Under Significant Influence	**-**	**-**	**6**	**-**
Total	**198,052**	**221,000**	**233,034**	**247,773**

2020 **HRK '000**	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Republic of Croatia				
Hrvatska Pošta d.d.	216,793	231,773	230,555	229,508
Subsidiaries				
HPB Invest Ltd	5,061	5,870	3,000	-
HPB Nekretnine d.o.o.	7,200	6,678	644	1,541
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	725	2,189	9	20,785
Long-Term Benefits (loans and deposits)	3,225	883	76	12
Companies Under Significant Influence	**20,000**	**750**	**7**	**22**
Total	**253,004**	**248,143**	**234,291**	**251,868**

** The exposure includes advances in cash and in kind, contingent liabilities and commitments, interest and other receivables and includes HRK 20,236 thousand (2020: HRK 17,117 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or provisions for losses.*

41. RELATED PARTY TRANSACTIONS (continued)

c) State owned companies

Major shareholders of the Bank, which together own 77.42% of its shares, are state agencies or state-owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state-owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 37.

42. REPURCHASE AND RESALE AGREEMENTS

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.
Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognized and the proceeds are accounted for as interest-bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

HRK '000	Book Value of Receivables	Fair Value of Collaterals	Repurchase Date	Repurchase Price
Loans to Customers – Repo Agreements				
2021	401,790	451,720	ožujak 2025,	403,699
2020	400,790	420,856	ožujak 2025,	401,319

Related Party Transactions, in accordance with IFRS 9: Financial Instruments, are recognized as repurchase agreements.

The Group also purchases financial instruments provided that they are re-sold at a contracted future date ("resale agreement"). The seller agrees to buy the same or similar instruments on the agreed future date. Re-sale is contracted as a client financing instrument and is recorded as loans and advances to customers and the purchased financial instrument is not recognized.

HRK '000	Book Value of Receivables	Fair Value of Collaterals	Repurchase Date	Repurchase Price
Loans to Customers – Reverse Repo Agreements				
2021	-	-	-	-
2020	27,275	4,604	siječanj 2021,	27,276

43. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Group manages funds on behalf of and for the account of legal entities, households and investment funds (including investment funds of the Group), which holds and manages assets or invests funds in various financial instruments at the client's request. For services provided, the Bank receives a fee income. This asset is not the Group's assets and is not recognized in the statement of financial position. The Group is not exposed to credit risks from such placements or guarantees for investments.

As at 31 December 2021, total assets under the custody of the Bank, including HPB Group funds, amounted to HRK 7.18 billion (2020: HRK 6.16 billion).

Furthermore, as at 31 December 2021, the total assets of investment and pension funds, for which the Bank operates as depositories, amounted to HRK 6.74 billion (2020: HRK 6.03 billion).

The Bank also manages other credit exposure, as follows:

	2021 HRK '000	2020 HRK '000
Assets		
Corporate	55,065	58,006
Retail	461,802	483,200
Giro Accounts	689,882	635,490
Total Assets	**1,206,749**	**1,176,696**
Liabilities	63,910	67,314
Croatian Employment Office	9,999	10,114
Counties	1,119,048	1,084,975
Government of the Republic of Croatia	9,062	8,849
Other Liabilities	4,729	5,445
Total Liabilities	**1,206,749**	**1,176,696**

44. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	Average interest rates 2021	Average interest rates 2020
Assets		
Cash and Amounts Due from Banks	(0.1%)	(0.12%)
Loans to and Receivables from Banks	0.09%	0.42%
Financial Assets at FV Through P&L	1.68%	1.89%
Financial Assets at FV through OCI	1.46%	1.63%
Financial Assets at Amortized Cost	10.11%	5.35%
Loans and Receivables from Customers	3.39%	3.63%
Liabilities		
Deposits from Banks	(1.62%)	(0.03%)
Customer Deposits	(0.09%)	(0.25%)
Borrowings	(0.84%)	(1.05%)

Group	Average interest rates 2021	Average interest rates 2020
Assets		
Cash and Amounts Due from Banks	(0.10%)	(0.12%)
Credits to and Receivables from Banks	0.09%	0.42%
Financial Assets at FV Through P&L	1.68%	1.89%
Financial Assets at FV through OCI	1.46%	1.63%
Financial Assets at Amortized Cost	10.11%	5.35%
Loans and Receivables from Customers	3.39%	3.63%
Liabilities		
Deposits from Banks	(1.62%)	(0.03%)
Customer Deposits	(0.09%)	(0.25%)
Borrowings	(0.84%)	(1.05%)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or financial assets at fair value through other comprehensive income are measured at fair value. Financial assets valued at amortized cost are measured at amortized cost less impairments. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these 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, 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 when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated 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 IAS 17, 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 in its entirety, 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.

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio-based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Bank has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Bank's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity.

The following table represents the Group's and Bank's estimate of the fair value hierarchy of financial instruments as of December 31, 2021 and December 31, 2020.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 31.12.2021	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecog-nized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	**6,192,555**	**Level 1**	**Cash and Cash Equivalents**	**6,192,555**	**-**
Mandatory Reserve with the Croatian National Bank	**1,326,442**	**Level 1**	**Cash Equivalent**	**1,326,442**	**-**
Loans to and Receivables from Banks	**289,806**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**289,837**	**(31)**
Financial Assets at Fair Value through P&L	**625,986**			**625,986**	**-**
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	483,499	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	483,499	-
- Corporate bonds and commercial bills	24,861	Level 1	Corporative bonds and commercial bills	24,861	-
- Open-End Investment Fund Investments	80,933	Level 1	Value of an Individual Share on Given Date	80,933	-
- Equity Securities	24,706	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	24,706	-
1 Loans and Receivables from customers	8,883	Level 3	Present Value of Discounted Future Cash Flows	8,883	-
- Interest Receivables, not due	3,104	Not Applicable	Not Applicable	3,104	-
Financial Assets at Fair Value through OCI	**4,601,297**			**4,601,297**	**-**
- Ministry of Finance Treasury Bills	376,071	Level 2	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	376,071	-
- Ministry of Finance Bonds	3,953,844	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	3,953,844	-
- Foreign Country Securities	-	Level 1	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	195,219	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	195,219	-
- Corporate Bonds of Other Companies	-	Level 3	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	25,669	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	25,669	-
- Equity Securities – Listed	23,204	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	23,204	-
- Interest Receivables, not due	27,292	Not Applicable	Not Applicable	27,292	-
Financial Assets at Amortized Cost	**453**	**Level 3**	**Present Value of Future Discounted cash Flows**	**453**	**-**
Loans and Receivables from Customers	**13,985,258**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**14,251,800**	**(266,542)**
Total Financial Assets	**27,021,798**			**27,288,371**	**(266,573)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**-**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**-**	**-**
Deposits from Banks	**28,025**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**28,025**	**-**
Customer Deposits	**23,414,833**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**23,412,844**	**(1,989)**
Borrowings	**1,410,402**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,396,886**	**(13,516)**
Total Financial Liabilities	**24,853,260**			**24,837,755**	**(15,505)**
TOTAL					**(282,078)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 31.12.2020	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	**3,684,942**	**Level 1**	**Cash and Cash Equivalents**	**3,684,942**	-
Mandatory Reserve with the Croatian National Bank	**1,219,157**	**Level 1**	**Cash Equivalent**	**1,219,157**	-
Loans to and Receivables from Banks	**379,399**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**379,399**	-
Financial Assets at Fair Value through P&L	**758,106**			**758,106**	-
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	619,551	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	619,551	-
- Open-End Investment Fund Investments	71,086	Level 1	Value of an Individual Share on Given Date	71,086	-
- Equity Securities	24,254	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	24,254	-
- Equity Securities – Not Listed	20,000	Level 3	Internal valuation	20,000	-
- Fair Value of Forwards	-	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	-	-
Loans and Receivables from customers	17,415	Level 3	Present Value of Discounted Future Cash Flows	17,415	-
- Interest Receivables, not due	5,798	Not Applicable	Not Applicable	5,798	-
Financial Assets at Fair Value through OCI	**4,158,035**			**4,158,035**	-
- Ministry of Finance Treasury Bills	188,212	Level 2	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	188,212	-
- Ministry of Finance Bonds	3,807,305	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	3,807,305	-
- Foreign Country Securities	-	Level 1	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	83,065	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	83,065	-
- Corporate Bonds of Other Companies	-	Level 3	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	24,095	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	24,095	-
- Equity Securities – Listed	24,933	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	24,933	-
- Interest Receivables, not due	30,426	Not Applicable	Not Applicable	30,426	-
Financial Assets at Amortized Cost	**1,975**	**Level 3**	**Present Value of Future Discounted cash Flows**	**1,975**	-
Loans and Receivables from Customers	**14,395,471**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**14,722,770**	**(328,107)**
Total Financial Assets	**24,596,227**			**24,924,384**	**(328,107)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**21**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**21**	-
Deposits from Banks	**96,639**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**96,635**	**(4)**
Customer Deposits	**21,119,160**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**21,110,846**	**(8,315)**
Borrowings	**1,487,332**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,466,641**	**(20,691)**
Total Financial Liabilities	**22,703,152**			**22,674,143**	**(29,009)**
TOTAL					**(357,167)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 31.12.2021	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	**6,192,515**	**Level 1**	**Cash and Cash Equivalents**	**6,192,515**	**-**
Mandatory Reserve with the Croatian National Bank	**1,326,442**	**Level 1**	**Cash Equivalent**	**1,326,442**	**-**
Loans to and Receivables from Banks	**289,806**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**289,837**	**(31)**
Financial Assets at Fair Value through P&L	**625,986**			**625,986**	
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	483,499	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	483,499	-
- Corporative bonds and commercial bills	24,861	Level 1	Corporative bonds and commercial bills	24,861	-
- Open-End Investment Fund Investments	80,933	Level 1	Value of an Individual Share on Given Date	80,933	-
- Equity Securities	24,706	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	24,706	-
Loans and Receivables from customers	8,883	Level 3	Present Value of Discounted Future Cash Flows	8,883	-
- Interest Receivables, not due	3,104	Not Applicable	Not Applicable	3,104	-
Financial Assets at Fair Value through OCI	**4,601,297**			**4,601,297**	**-**
- Ministry of Finance Treasury Bills	376,071	Level 2	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	376,071	-
- Ministry of Finance Bonds	3,953,844	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	3,953,844	-
- Foreign Country Securities	-	Level 1	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	195,219	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	195,219	-
- Corporate Bonds of Other Companies		Level 3	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	25,669	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	25,669	-
- Equity Securities – Listed	23,204	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	23,204	-
- Interest Receivables, not due	27,292	Not Applicable	Not Applicable	27,292	-
Financial Assets at Amortized Cost	**453**	**Level 3**	**Present Value of Future Discounted cash Flows**	**453**	-
Loans and Receivables from Customers	**13,985,258**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**14,251,800**	**(266,542)**
Total Financial Assets	**27,021,758**			**27,288,330**	**(266,573)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**-**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**-**	**-**
Deposits from Banks	**28,025**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**28,025**	**-**
Customer Deposits	**23,424,078**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**23,422,089**	**(1,989)**
Borrowings	**1,410,402**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,396,886**	**(13,516)**
Total Financial Liabilities	**24,862,505**			**24,847,000**	**(15,505)**
TOTAL					**(282,078)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 31.12.2020	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	**3,684,902**	**Level 1**	**Cash and Cash Equivalents**	**3,684,902**	**-**
Mandatory Reserve with the Croatian National Bank	**1,219,157**	**Level 1**	**Cash Equivalent**	**1,219,157**	**-**
Loans to and Receivables from Banks	**379,399**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**379,399**	**-**
Financial Assets at Fair Value through P&L	**759,271**			**759,271**	**-**
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	619,551	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	619,551	-
- Open-End Investment Fund Investments	71,086	Level 1	Value of an Individual Share on Given Date	71,086	-
- Equity Securities	24,254	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	24,254	-
- Equity Securities – Not Listed	20,000	Level 3	Internal valuation	20,000	-
- Fair Value of Forwards	-	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	-	-
Loans and Receivables from customers	17,415	Level 3	Present Value of Discounted Future Cash Flows	17,415	-
- Interest Receivables, not due	6,964	Not Applicable	Not Applicable	6,964	-
Financial Assets at Fair Value through OCI	**4,158,035**			**4,158,035**	**-**
- Ministry of Finance Treasury Bills	188,212	Level 2	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	188,212	-
- Ministry of Finance Bonds	3,807,305	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	3,807,305	-
- Foreign Country Securities	-	Level 1	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	83,065	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	83,065	-
- Corporate Bonds of Other Companies	-	Level 3	Mark-to-Model Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	24,095	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	24,095	-
- Equity Securities – Listed	24,933	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	24,933	-
- Interest Receivables, not due	30,426	Not Applicable	Not Applicable	30,426	-
Financial Assets at Amortized Cost	**1,975**	**Level 3**	**Present Value of Future Discounted cash Flows**	**1,975**	**-**
Loans and Receivables from Customers	**14,395,471**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**14,722,770**	**(328,157)**
Total Financial Assets	**24,597,351**			**24,925,509**	**(328,157)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**21**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**21**	**-**
Deposits from Banks	**96,639**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**96,635**	**(4)**
Customer Deposits	**21,126,749**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**21,118,434**	**(8,315)**
Borrowings	**1,487,332**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,466,641**	**(20,691)**
Total Financial Liabilities	**22,710,741**			**22,681,732**	**(29,009)**
TOTAL					**(357,167)**

46. ENCUMBERED ASSETS OF THE CREDIT INSTITUTION

The Bank under the term encumbered assets means the pledged assets, given as collateral, subject to some form of pledge or serves to improve the credit position from which it cannot be withdrawn freely. Also, the assets for which the withdrawal must be previously approved are considered to be encumbered assets

In the structure of assets, the Bank has recorded encumbered assets in the amount of HRK 2,080,941 thousand (2020: HRK 2,663,217 thousand). The carrying amount of the Bank's encumbered assets in relation to the Bank's balance sheet total is 7.48 percent of the Bank's assets.

Encumbered assets of the Bank include a total of HRK and foreign currency reserve requirements, which include the amounts held in the accounts with the CNB, as well as funds on reserve maintenance accounts in the total amount of HRK 1,326,442 thousand (2020: HRK 1,935,792 thousand **).

In arrangement with the CNB, the Bank contracted a repo loan in 2020 in response to the strengthening of the liquidity position caused by COVID-19, on the basis of which it pledged Croatian bonds in the total amount of HRK 451,720 thousand. The remaining amount of encumbered assets refers to the pledged loan in the amount of HRK 289,733 thousand as collateral for the foreign currency loan received from the European Investment Bank and guarantee deposits in the amount of HRK 13,046 thousand.

Table form of encumbered assets of the Group and Bank are presented as at December 31, 2021 and December 31, 2020

Group CI **HRK '000**	**31.12.2021** **Book Value**	**31.12.2021** **Fair Value**	**31.12.2020** **Book Value**	**31.12.2020** **Fair Value**
Equity Instruments	-	-	-	-
Securities	451,720	451,720	420,856	420,856
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	1,326,442	1,326,442	1,935,792	1,935,792
Loans to Customers and Other Assets	302,779	302,779	306,569	306,569
Total	2,080,941	2,080,941	2,663,217	2,663,217

Bank **HRK '000**	**31.12.2021** **Book Value**	**31.12.2021** **Fair Value**	**31.12.2020** **Book Value**	**31.12.2020** **Fair Value**
Equity Instruments	-	-	-	-
Securities	451,720	451,720	420,856	420,856
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	1,326,442	1,326,442	1,935,792	1,935,792
Loans to Customers and Other Assets	302,779	302,779	306,569	306,569
Total	2,080,941	2,080,941	2,663,217	2,663,217

* According to the EBA response, Q&A 2020_5475 Definition of encumbered assets.
** Comparative year on 31.12.2020. it also included funds on reserve requirement accounts with rating banks.

47. EVENTS AFTER THE REPORTING DATE

Hrvatska poštanska banka, p.l.c, has a very limited business relationship with entities from Russia and Ukraine, with minimal direct credit exposure to entities owned by persons from Ukraine or Russia. The Bank does not expect material negative effects as a result of events in Ukraine in the short term due to relatively low exposure to tourism and energy activities, which are expected to be the first sectors affected by the situation, and relatively high accumulated savings. The longer duration of the current situation in Ukraine could indirectly lead to a deterioration in the quality of the loan portfolio, but the Bank does not expect that such losses could materially affect its liquidity and solvency. credit and high collateralism on the other hand.

Following the Russian invasion of Ukraine, the European Union and the United States imposed a package of sanctions that had a rapid and significant impact on the operations of Sberbank d.d. Due to the sudden disturbance of liquidity, the European Central Bank (ECB), which directly supervises this bank, on February 28, 2022, announced that Sberbank d.d. is failing or is likely to fail.

The European Central Bank (ECB) informed the Single Resolution Board (SRB), the central resolution authority within the Banking Union, which found that the bank is failing or likely to fail due to its deteriorating liquidity position, hence on March 1, 2022 in cooperation with the Croatian National Bank as the national resolution authority, issued a decision of initiating the resolution procedure against Sberbank dd Zagreb, which will be concluded through sale. As of March 2, 2022, Hrvatska poštanska banka d.d. becomes the new owner, and the Croatian National Bank transfers 615,623 shares, which represent 100% of the share capital of Sberbank d.d., by order of the Single Resolution Board to Hrvatska poštanska banka p.l.c. Until the completion of the resolution carried out by the Croatian National Bank, ie until the appointment of the new management of Sberbank d.d. which will be set up by Hrvatska poštanska banka p.l.c., the coordination of the bank's operations will be taken over by the resolution management.

Decision on resolution of Sberbank d.d. by sale was made in order to ensure financial stability in the Republic of Croatia, prevent economic disturbances and protect the public interest, as well as the clients of this bank.

The new name of Sberbank Hrvatska under which it will operate within the HPB Group is Nova hrvatska banka.

Balance Sheet as at 31 December 2021

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
ASSETS				
1. Cash and Balances with the CNB and Other a vista deposit (AOP 002 to 004)	**001**		**3,662,460,152**	**6,177,602,131**
1.1. Cash in Register	**002**		900,072,987	1,422,548,361
1.2. Cash Balances with CNB	**003**		2,224,401,393	4,339,757,848
1.3. Other a Vista Deposits	**004**		537,985,772	415,295,922
2. Financial Assets Held for Trading (AOP 006 to 009)	**005**		**719,257,423**	**616,670,614**
2.1. Derivatives	**006**		-	-
2.2. Equities	**007**		95,340,654	105,639,274
2.3. Debt securities	**008**		623,916,769	511,031,340
2.4. Loans and Advances	**009**		-	-
3. Financial Assets not for Trading at Fair Value through Profit and Loss Account (AOP 011 to 013)	**010**		**18,865,901**	**9,316,729**
3.1. Equities	**011**		-	-
3.2. Debt Securities	**012**		-	-
3.3. Loans and Advances	**013**		18,865,901	9,316,729
4. Financial Assets at Fair Value through Profit and Loss Account (AOP 015 + 016)	**014**		-	-
4.2. Debt Securities	**015**		-	-
4.3. Loans and Advances	**016**		-	-
5. Financial Assets at Fair Value through Other Comprehensive Income (AOP 018 to 020)	**017**		**4,158,015,469**	**4,601,319,906**
5.1. Equities	**018**		49,027,711	48,896,784
5.1. Debt Securities	**019**		4,108,987,758	4,552,423,122
5.2. loans and Advances	**020**		-	-
6. Financial Assets at Amortized Cost (AOP 022+023)	**021**		**16,413,935,375**	**15,955,565,325**
6.1. Debt Securities	**022**		1,978,784	454,371
6.2. Loans and Advances	**023**		16,411,956,591	15,955,110,954
7. Derivatives – hedge accounting	**024**		-	-
8. Changes in Fair Value of Hedge Items in Interest Rate Risk Portfolio Hedging	**025**		-	-
9. Investments in Subsidiaries, Joint Ventures and Associates	**026**		**9,760,843**	**9,760,843**
10. Tangible Assets	**027**		**326,523,749**	**310,680,257**
11. Intangible Assets	**028**		**91,038,847**	**93,319,300**
12. Tax Assets	**029**		**2,797,956**	**642,640**
13. Other Assets	**030**		**40,321,774**	**50,579,782**
14. Non-current Assets and Disposal Groups Classified as Held for Sale	**031**		**20,000,000**	**9,200,000**
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 do 031)	**032**		**25,462,977,489**	**27,834,657,527**

Balance Sheet as at 31 December 2021 (continued)

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
LIABILITIES				
16. Financial Liabilities Held for Trading (AOP 034 to 038)	033		**21,172**	**-**
16.1. Derivatives	034		21,172	-
16.2. Short Positions	035		-	-
16.3. Deposits	036		-	-
16.4. Issued Debt Securities	037		-	-
16.5. Other Financial Liabilities	038		-	-
17. Financial Liabilities at Fair Value through Profit and Loss Account (AOP 040 to 042)	039		-	-
17.1. Deposits	040		-	-
17.2. Issued Debt Securities	041		-	-
17.3. Other Financial Liabilities	042		-	-
18. Financial Liabilities at Amortized Cost (AOP 044 to 046)	043		22,688,405,792	24,599,744,662
18.1. Deposits	044		22,569,135,023	24,505,320,711
18.2. Issued Debt Securities	045		-	-
18.3. Other Financial Liabilities	046		119,270,769	94,423,951
19. Derivatives – Hedge Accounting	047		-	-
20. Changes in Fair Value of Hedge Items in Interest Rate Risk Portfolio Hedging	048		-	-
21. Provisions	049		**125,688,739**	**341,273,561**
22. Tax Liabilities	050		**25,697,310**	**64,392,779**
23. Share Capital Returned at Request	051		-	-
24. Other Liabilities	052		**150,060,287**	**178,816,674**
25. Liabilities Included into Disposal Groups for Classified as Held for Sale	053		-	-
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 do 053)	054		**22,989,873,300**	**25,184,227,676**
EQUITY				
27. Share Capital	055		**1,214,775,000**	**1,214,775,000**
28. Premium on Equity	056		-	-
29. Issued Equity Instruments Except for Capital	057		-	-
30. Other Equity Instruments	058		-	-
31. Accumulated Other Comprehensive Income	059		**264,974,555**	**240,193,702**
32. Retained Earnings	060		**200,321,464**	**291,352,537**
33. Revaluation Reserves	061		-	-
34. Other Reserves	062		**611,448,026**	**702,479,098**
35. Treasury Equities	063		**(477,000)**	**(477,000)**
36. Profit or Loss belonging to Mother Company Owners	064		**182,062,145**	**202,106,513**
37. Dividends During Business Year	065		-	-
38. Minority Interests (Non-controlling Interests)	066		-	-
39. TOTAL ASSETS (AOP 055 do 066)	067		**2,473,104,190**	**2,650,429,850**
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	068		**25,462,977,490**	**27,834,657,526**

Profit and Loss Account for period from 1 January to 31 December 2021

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
1. Interest Income	069		588,918,099	560,475,074
2. Interest Expense	070		51,583,346	36,363,820
3. Share Capital Returned at Request Expenses	071		-	-
4. Dividend Income	072		3,292,513	2,043,665
5. Fee and Commissions Income	073		450,155,698	482,976,369
6. Fee and Commissions Expense	074		273,888,635	290,099,614
7. Gains or Losses from derecognition of Financial Assets and Liabilities not measured at Fair Value through Profit and Loss Account, net	075		35,035,565	671,529
8. Gains or Losses from Financial Assets and Liabilities Held for Trading, net	076		47,068,263	59,962,657
9. Gains or Losses from Financial Assets Not for trading Measured at Fair Value through Profit and Loss Account, net	077		(571,077)	30,491,412
10. Gains or Losses from Financial Assets and Liabilities at Fair Value through Profit and Loss Account, net	078		-	-
11. Gains or Losses from Hedge Accounting, net	079		-	-
12. Exchange Rate Differences (Gain or Loss), net	080		(8,624,819)	(7,592,753)
13. Gains or Losses from Derecognition of Non-financial Assets, net	081		-	-
14. Other Operating Income	082		10,448,879	18,529,530
15. Other Operating Expenses	083		13,223,239	19,815,032
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	**084**		**787,027,901**	**801,279,017**
17. Administrative Expenses	085		381,956,776	408,674,319
18. Contributions in cash to recovery committees and deposit insurance schemes	086		42,002,367	13,916,357
19. Depreciation	087		75,816,110	67,020,386
20. Gains or Losses from Changes, net	088		(3,386,347)	(4,328,639)
21. Provisions or Termination of Provisions	089		(61,671,217)	306,219
22. Impairment or Termination of Impairment of Financial Assets Not Measured at Fair Value through Profit and Loss Account	090		109,876,155	63,262,189
23. Impairment or Termination of Impairment of Investments into Subsidiaries, Joint Ventures and Associates	091		-	-
24. Impairment or Termination of Impairment of Non-financial Assets	092		8,711,610	(1,903,399)
25. Negative Goodwill recognized through Profit or Loss	093		-	-
26. Profit or Loss Share from Investments into Subsidiaries, Joint Ventures and Associates accrued by Share Method	094		-	-
27. Gains or Losses from Non-current Assets and Disposal Groups Classified as Held for Sale Not Qualified as Continuation of Business	095		-	-
28. PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094)	**096**		**226,949,753**	**245,674,307**
29. Tax Expenses or Income related to Profit or Loss from Continuing Business	097		(44,887,608)	(43,567,794)
30. PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	**098**		182,062,145	202,106,513
31. Profit or Loss After Tax from Non-continuing Business (AOP 099 - 100)	**099**		-	-
31.1. Profit or Loss After Tax from Non-continuing Business	100		-	-
31.2. Tax Expenses or Income related to Non-continuing Business	101		-	-
32. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**102**		**182,062,145**	**202,106,513**
33. Attributable to Minority Interests (Non-Controlling Interests)	103		-	-
34. Attributable to Owners of the Mother Company	104		182,062,145	202,106,513

Comprehensive Income Statement for the Period from 1 January to 31 December 2021

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
COMPREHENSIVE INCOME STATEMENT				
1. Profit or loss for the Year (AOP 101)	**104**		**182,062,145**	**202,106,513**
2. Other Comprehensive Income (AOP 106 + 118)	**105**		**(82,538,216)**	**(24,780,853)**
2.1. Items – not to be reclassified to P&L (AOP 107 do 113 + 116 + 117)	**106**		**(4,199,151)**	**1,831,095**
2.1.1. Tangible Assets	107		(7,533,354)	6,411,028
2.1.2. Intangible Assets	108		-	-
2.1.3. Actuarial gains or losses from employer's pension benefits programmed	109		1,825,625	(2,968,225)
2.1.4. Non-current Assets and Disposal Groups Held for Sale	110		-	-
2.1.5. Other recognized income and expenses from entities recognized at share method	111		-	-
2.1.6. Changes in Fair Value of Equities at Fair Value through Other Comprehensive Income	112		-	-
2.1.7. Gains or Losses from Hedge Accounting of Equities at Fair Value through OCI, net	113		-	-
2.1.8. Changes of fair Value of Equities at Fair Value through OCI (Hedge Item)	114		-	-
2.1.9. Changes in Fair Value of Equities at Fair Value through OCI (Hedge Instrument)	115		-	-
2.1.10. Changes in Fair Value of Financial Liabilities at Fair Value through P&L Due to Changes in Credit Risk	116		-	-
2.1.11. Income tax on items not to be reclassified to P&L	117		1,508,578	(1,611,708)
2.2. Items that might be reclassified to P&L (AOP 119 to 126)	**118**		**(78,339,065)**	**(26,611,948)**
2.2.1 Hedge on Net Investments to Foreign Operations (effective share)	119		-	-
2.2.2. FX Exchange	120		-	-
2.2.3. Cash flow Hedge (effective share)	121		-	-
2.2.4. Hedge Risk Instruments (Undetermined Elements)	122		-	-
2.2.5. Debt Instruments at Fair Values through OCI	123		(95,463,311)	(32,525,728)
2.2.6. Non-current Assets and Disposal Groups Held for Sale	124		-	-
2.2.7. Share of other income and expenses from investments in subsidiaries, joint ventures and associates	125		-	-
2.2.8. Income tax on items that might be reclassified to P&L	126		17,124,246	5,913,780
3. Total other comprehensive income for the year (AOP 104 + 105 and AOP 128 + 129)	**127**		**99,523,929**	**177,325,660**
4. Attributable to Minority Interests (Non-Controlling Interests)	128		-	-
5. Attributable to Owners of the Mother Company	129		99,523,929	177,325,660

Changes in Equity During 2021

Item	AOP code	Attributable to owners of the parent											Non-controlling interest		Total
		Equity	Share premium	Equity instruments issued other than capital	Other equity instruments	Accumulated other compre-hensive income	Retained profit	Revaluation reserves	Other reserves	() Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated other compre-hensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Opening balance [before restatement]	001	1,214,775,000	-	-	-	264,974,555	200,321,464	-	611,448,026	(477,000)	182,062,145	-	-	-	2,473,104,190
Effect of error corrections	002	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting polices	003	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1. + 2. + 3.)	004	1,214,775,000	-	-	-	264,974,555	200,321,464	-	611,448,026	(477,000)	182,062,145	-	-	-	2,473,104,190
Ordinary shares issue	005	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares issue	006	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	007	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	008	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt equity	009	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	010	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	011	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase/sale of treasury shares	012	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	013	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	014	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	015	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer among components of equity instruments	016	-	-	-	-	-	91,031,073	-	91,031,073	-	(182,062,145)	-	-	-	-
Share based payments	017	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease of equity instruments	018	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	019	-	-	-	-	(24,780,853)	-	-	-	-	202,106,513	-	-	-	177,325,660
Equity instruments increase or (-) decrease resulting from business combinations	020	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance [current period] (from 4 to 20)	021	1,214,775,000	-	-	-	240,193,702	291,352,537	-	702,479,099	(477,000)	202,106,513	-	-	-	2,650,429,851

Cash Flow for the Year 2021

	2021 HRK '000	2020 HRK '000
Operating Activities and Impairment		
1. Profit/ (Loss) Before Tax	245,675	227,124
2. Impairment Losses and Provisions	66,116	174,934
3. Depreciation and Amortization	67,020	74,953
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(83,170)	(73,479)
5. Gains/ (Losses) on Sale of Tangible Assets	(5,029)	-
6. Other Non-monetary Items	(518,562)	(537,335)
Changes in Operating Assets		
7. CNB Deposits	(107,285)	(280,916)
8. Treasury Bills of the Ministry of Finance and the CNB bills	(4,727)	258,286
9. Loans and Advances to Other Customers	446,381	(1,316,302)
10. Securities and Other Financial Instruments at Fair Value through OCI	-	468,611
11. Securities and Other Financial Instruments Held for Trading	172,074	(65,609)
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	-	-
14. Securities and Other Financial Instruments Measured at Amortized Cost	1,534	2,327
15. Other Operating Assets	(19,526)	2,683
Net Increase/ Decrease in Operating Liabilities		
16. Deposits from Financial Institutions	(69,619)	105,944
17. Transaction Accounts of Other Customers	890,116	1,255,559
18. Saving Deposits of Other Customers	1,918,207	720,175
19. Term Deposits of Other Customers	(775,064)	(928,046)
20. Derivative Financial Liabilities and Other Liabilities Not for Trading	(21)	5,953
21. Other Liabilities	236,166	862
22. Collected Interest from Operating Activities	484,505	588,918
23. Received Dividend from Operating Activities	-	3,281
24. Paid Interest from Operating Activities	(30,807)	(51,583)
25. Income Tax Paid	2,098	-
A) Net Cash Flows from Operating Activities	**2,916,082**	**636,339**
Investing Activities		
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(47,009)	(58,990)
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	(369,725)	-
4. Dividends Received from Investing Activities	2,044	2,327
5. Other inflows / outflows from Investing Activities	-	-
B) Net Cash Flows from Investing Activities	(414,690)	(56,663)
Financing Activities		
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	(57,279)	475,823
2. Net Increase/ (Decrease) in Issued Debt Securities	-	-
3. Net increase / (Decrease) of Additional Capital Instruments	-	-
4. Increase in Share Capital	-	-
5. Dividend Paid	-	-
6. Other inflows / outflows from Financing Activities	(24,343)	-
C) Net Cash Flows from Financing Activities	**(81,622)**	**475,823**
D) Net Increase in Cash and Cash Equivalents	**2,419,770**	**1,055,499**
Cash and Cash Equivalents at the Beginning of the Year	**4,081,541**	**3,037,319**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**-**	**(8,625)**
Cash and Cash Equivalents at the End of the Year	**6,501,311**	**4,084,193**

Balance Sheet Reconciliation as at 31 December 2021.

ASSETS

Regulatory reporting / Statutory reporting

u HRK '000	Regulatory reporting	Cash and amounts due from banks	Mandatory reserve with CNB	Loans and receivables from banks	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Financial assets and amortized cost	Loans receivables from customers	Assets held for sale	Investments in subsidiaries	Property and land	Investment property	Intangible assets	Net deferred tax assets	Tax prepayment	Other assets	Reconcillation between Statutory and regulatory reporting
Cash in register	1,422,548	(1,422,544)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4
Deposit with CNB	4,339,758	(4,339,758)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other a vista deposits	415,296	(415,452)	-		-	-	-	-	-	-	-	-	-	-	-		(156)
Financial assets held for trading	616,670	-	-	-	(616,670)	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets non for trading, mandatory measured at fair value through profit and loss	9,317	-	-	-	(9,317)	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comrehensive income	4,601,320	-	-	-	-	(4,601,297)	-	-	-	-	-	-	-	-	-	-	22
Financial assets measured at amortized cost - debt securities	453	-	-	-	-	-	(453)	-	-	-	-	-	-	-	-	-	-
Financial assets measured at amortized cost - loans	15,955,111	-	(1,326,442)	(289,837)	-	-	-	(14,272,157)	-	-	-	-	-	-	-	-	66,675
Investments in subsidiaries, joint ventures and associates	9,761	-	-	-	-	-	-	-	-	(9,761)	-	-	-	-	-	-	-
Tangible assets (less depreciation)	310,681	-	-	-	-	-	-	-	-	-	(248,110)	(60,629)	-	-	-	(1,942)	1
Intangible assets	93,319	-	-	-	-	-	-	-	-	-	-	-	(93,319)	-	-	-	-
Tay assets	643	-	-	-	-	-	-	-	-	-	-	-	-	(26,282)	(541)	(101)	(26,282)
Other assets	50,580	(14,761)	-	-	-	-	-	20,357	-	-	-	-	-	-	-	(121,254)	(65,078)
Non current assets and disposable groups classified as held for sale	9,200	-	-	-	-	-	-	-	(9,200)	-	-	-	-	-	-	-	-
TOTAL ASSETS	**27,834,657**	**(6,192,515)**	**(1,326,442)**	**(289,837)**	**(625,986)**	**(4,601,297)**	**(453)**	**(14,251,800)**	**(9,200)**	**(9,761)**	**(248,110)**	**(60,629)**	**(93,319)**	**(26,282)**	**(541)**	**(123,297)**	**(24,813)**

1. Cash on hand in the amount of HRK 1,422,548 thousand, Other demand deposits in the amount of HRK 415,296 thousand, Financial assets at fair value through other comprehensive income in the amount of HRK 4,339,758 thousand, Financial assets at amortized cost \ Debt securities Loans and advances in the amount of HRK 15,955,111 thousand, Financial assets in the amount of HRK 643 thousand, Other assets in the amount of HRK 50,580 thousand, Other assets in the amount of HRK 50,580 thousand, Financial liabilities measured at amortized cost in the amount of HRK 24,599,744 HRK thousand, Provisions in the amount of HRK 341,274 thousand, Tax liabilities in the amount of HRK 64,393 thousand, and Other liabilities in the amount of HRK 178,817 thousand within the Prescribed reports are stated under Money and bank accounts in the amount of HRK 1,422,544 thousand, Financial assets by fair value through other comprehensive income in the amount of

HRK 4,601,297 thousand, Financial investments at amortized cost in the amount of HRK 9,317 thousand and HRK, Reserve requirement with the Croatian National Bank in the amount of HRK 1,326,442 thousand, Loans and receivables from banks in the amount of HRK 289,837 thousand, Loans and receivables from customers in the amount of HRK 14,272,157 thousand, Assets held for sale in the amount of HRK 9,200 thousand, Property, plant and equipment in the amount of HRK 248,110 thousand, Investment property in the amount of HRK 60,629 thousand, Other assets in the amount of HRK 123,297 thousand, Bank deposits in the amount of HRK 28,025 thousand, Customer deposits in the amount of HRK 23,422,089 thousand, Loans in the amount of HRK HRK 1,396,886 thousand, Provisions for liabilities and charges HRK 88,015 thousand, and Other liabilities in the amount of HRK 185,572 thousand in the Basic financial statements.

2. The amount of HRK 9,761 thousand presented within the item Investments into subsidiaries, joint ventures and associates in the regulatory financial reports is disclosed within the item Investments in subsidiaries in the statutory financial reports.
3. The amount of HRK 64,393 thousand of deferred tax liabilities is disclosed within the regulatory financial reports in the item Tax liabilities within liabilities, while in the Financial reports it is netted within the item Net deferred tax assets.

Differences in other items are purely semantic in nature and there is no irreconciliation between balance sheets for 2021 in the regulatory financial reports and principal financial reports.

			Statutory reporting							
Regulatory reporting	in HRK '000	Regulatory reporting	Financial liabilities at fair value through profit and loss	Deposits from banks	Customer deposits	Borrowing	Provision for liabilities and expenses	Current tax liabilitiy	Other liabilities	Reconciliation between statutory and regulatory reporting
	Financial liabilities held for trading	-	-	-	-	-	-	-	-	-
	Financial liabilities at amortized cost	24,599,744	-	(28,025)	(23,445,802)	(1,396,886)	-	-	-	(270,969)
	Provisions	341,274	-	-	-	-	(88,015)	-	-	253,258
	Tax liabilities	64,393	-	-	-	-	-	(35,887)		28,506
	Tax liabilities	178,817	-	-	23,713	-	-	-	(185,572)	16,958
	Total liabilities	25,184,227	-	(28,025)	(23,422,089)	(1,396,886)	(88,015)	(35,887)	(185,572)	27,752

EQUITY

Regulatory reporting	in HRK '000	Regulatory reporting	Statutory reporting: Share capital	Capital gain	Treasury shares	Reserves for treasury shares	Statutory reserves	Other reserves	Fair value reserve	Revaluation reserve	Retained earning/ (recovered loss))	Reconciliation between statutory and regulatory reporting
Distributable to parent equity holders	Share capital	1,214,775	(1,214,775)									-
	Premium on equity											-
	Issued equity instruments											-
	Other equity instruments											-
	Accumulated other comprehensive income	240,194							(212,651)	(27,543)		-
	Retained earnings	291,353									(291,353)	-
	Revaluation reserves	-										-
	Other reserves	702,479				(4,477)	(40,010)	(657,992)				-
	Treasury equities	(477)			477							-
	Profit or loss belonging to mother company owners	202,108									(202,107)	1
	Dividents during business year											-
Minority interest	Accumulated other comprehensive income											-
	Other											-
	TOTAL EQUITY	**2,650,431**	**(1,214,775)**	**-**	**477**	**(4,477)**	**(40,010)**	**(657,992)**	**(212,651)**	**(27,543)**	**(493,460)**	-

Changes in equity and reserves statement for 2021 reconciliation

Except for differences in terminology between regulatory and statutory financial reports, the reconciliation refers to:

- Other reserves in regulatory financial report are within treasury shares reserves, statutory reserves and other reserves in the statutory financial reports
- Accumulated other comprehensive income in the regulatory financial reports is within items fair value reserve and revaluation reserve in the statutory financial reports
- Profit / loss attributable to mother company owners in regulatory financial reports is within the item retained earnings / (uncovered loss) in the statutory financial reports

Profit and loss account for 2021 reconciliation

in HRK '000	Total regulatory reporting	Interests and similar income	Interests and similar expense	Fees and commision income	Fees and commision expense	Gains less losses arising from financial instruments at fair value through profit and loss	Gains less losses arising from financial instruments available from sale	Gains less losses arising from dealing in foreign currencies	Other operating income	General administrative expenses	Depreciation and amortization	Impairment losses on loans and receivables from customers and other assets	Provision for liabilities and expenses	PROFIT BEFORE TAX	Deferred income tax (expense)/ income/	PROFIT FOR THE YEAR	Total statutory reporting	Reconciliation between statutory and regulatory reporting
Interest income	560,475	556,257	4,095														560,351	(124)
Interest expense	(36,364)		(36,240)														(36,240)	124
Expenses on share capital repayable on demand																	-	-
Dividend income	2,044								2,044								2,044	-
Fee and commission income	482,976			482,976													482,976	-
Fee and commission expense	(290,100)				(290,100)												(290,100)	-
Gains of losses from recognition of financial assets and liabilities not measured at fair value through profit and loss account, net	672						-		672								672	-
Gains or losses from financial assets and liabilities held for trading, net	59,963					2,487		57,476									59,963	-
Gains or losses on non-trading financial assets measured at fair value through profit or loss, net	30,491					30,800											30,800	309
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net																	-	-
Gains or losses from hedge accounting, net																	-	-
Exchange rate differences (gain or loss), net	(7,593)					(7,593)			46								(7,547)	46
Dobici ili (–) gubici po prestanku priznavanja ulaganja u društva kćeri, zajedničke pothvate i pridružena društva, neto	-																	
Dobici ili (–) gubici po prestanku priznavanja nefinancijske imovine, neto	-																-	-
Other operating income	18,530								18,292			(111)					18,181	(349)
Other operating expense	(19,815)											(6)					(6)	19,809
Administrative expense	(408,674)									(428,483)							(428,483)	(19,809)
Cash contributions to recovery committees and deposit insurance system	(13,916)									(13,916)							(13,916)	-
Depreciation	(67,020)										(67,020)						(67,020)	-
Gains or losses from changes, net	(4,329)											(4,329)					(4,329)	-
Provisions or reversal of provisions	(307)												(307)				(307)	-
Impairment or reversal of an impairment loss on a financial asset not measured at fair value through profit or loss	(63,262)											(63,268)					(63,268)	(6)
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	-																-	-
Impairment or reversal of impairment of non-financial assets	1,903											1,903					1,903	-
Negative goodwill recognized in profit or loss	-																-	-
Part of the profit or (-) loss from investments in subsidiaries, joint ventures and associates using the equity method	-																-	-
Profit or (-) loss on property, plant and equipment and disposal group classified as intended for sale that do not qualify as a business that will not continue	-																-	-
PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 -085 - 086 + 087 -088 to 091+ (092 to 094)	245,675													245,675			245,675	-
Tax expense or income related to operating profit or loss from continuing business	(43,568)														(43,568)		(43,568)	-
PROFIT OR LOSS AFTER TAX FROM CONTINUNG BUSINESS (AOP 095 -096)	202,107															202,107	202,107	-
Profit or loss after tax from continuing operations (AOP (099 - 100)	-																-	-
- Profit or loss before tax from non-continuing business	-																-	-
- Tax expenses or income related to non-continuing business	-																-	-
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097 + 098; 102 + 103)	202,107															202,107	202,107	-

Reconciliation of the statement of changes in profit and loss for 2021

1. The amount of HRK 4,095 thousand disclosed within Interest expense in regulatory financial reports is disclosed within Interest and similar income in statutory financial reports.
2. The amount of HRK 18,530 thousand within Other operating income, the amount of HRK 19,815 thousand within Other operating expenses in the amount of HRK 408,674 thousand within Administrative expenses and amount of HRK 307 thousand within Provisions or termination of provisions in regulatory financial reports are disclosed within Other operating income in the amount of HRK 21,053 thousand, General and administrative expenses in the amount of HRK 442,399 thousand, as well as within Provisions for liabilities and costs in the amount of HRK 307 thousand within statutory financial reports.

Differences in other items are purely semantic in nature and there is no mismatch between profit and loss accounts for 2021 in the regulatory financial reports and statutory financial reports.

Cash Flows Statement for 2021 reconciliation

OPERATING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Operating Activities and Impairment			
1. Profit/ (Loss) Before Tax	245,675	245,675	-
2. Impairment Losses and Provisions	66,116		66,116
- Impairment losses from loans to customers and other assets		65,804	(65,804)
- losses from provisions for liabilities and expenses		307	(307)
3. Depreciation	67,020	67,020	-
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(83,170)	(83,170)	-
5. Gains/ (Losses) on Sale of Tangible Assets	(5,029)		(5,029)
6. Other Non-monetary Items	(518,562)		(518,562)
- (profit) / loss from exchange rate differences		7,593	(7,593)
- net interest income		(524,111)	524,111
- dividend income		(2,044)	2,044
Changes in Operating Assets and Liabilities			
7. CNB Deposits	(107,285)		(107,285)
Net (increase)/decrease in mandatory CNB reserve		(107,285)	107,285
8. Deposits with financial institutions and loans to financial institutions	(4,727)		(4,727)
Increase in placements and loans to other banks		(4,727)	4,727
9. Loans and Advances to Other Customers	446,381		446,381
Net (increase)/decrease in loans and receivables from customers		441,654	(441,654)
10. Securities and Other Financial Instruments at Fair Value through OCI	-		-
Net (increase)/decrease in loans and receivables through OCI		-	-
11. Securities and Other Financial Instruments Held for Trading	172,074		172,074
Net (increase)/decrease in financial assets at fair value through P&L		172,074	(172,074)
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-		-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	-		-
14. Securities and Other Financial Instruments Measured at Amortized Cost	1,534		1,534
Net (increase)/decrease in financial assets measured at amortized Cost		1,534	(1,534)
15. Other Operating Assets	(19,526)		(19,526)
Net (increase)/decrease in other assets		(19,526)	19,526
Interest charged		484,505	(484,505)
Interest paid		(30,807)	30,807
Increase/ decrease in operating liabilities			
16. Deposits from Financial Institutions	(69,619)		(69,619)
17. Transaction Accounts of Other Customers	890,116		890,116
18. Saving Deposits of Other Customers	1,918,207		1,918,207
19. Term Deposits of Other Customers	(775,064)		(775,064)
Net (increase)/decrease in deposits from banks		(69,619)	69,619
Net increase/(decrease) in deposits from customers		2,032,940	(2,032,940)
20. Derivative Financial Liabilities and other trading liabilities	(21)		(21)
21. Other Liabilities	236,166		236,166
Net increase/(decrease) in other liabilities		236,166	(236,166)
22. Collected Interest from Operating Activities	484,505		484,505
23. Received Dividend from Operating Activities	-		-
24. Paid Interest from Operating Activities	(30,807)		(30,807)
25. Income Tax Paid	2,098	2,098	-
A) Net Cash Flows from Operating Activities	**2,916,082**	**2,916,081**	**1**

Cash Flows Statement for 2021 reconciliation (continued)

INVESTING ACTIVITIES	Regulatory Financial Reports	Principal Financial Reports	Difference
Investing Activities			
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(47,009)	(47,009)	-
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-	-
Sales in financial assets at fair value through other comprehensive income	-	50,000	(50,000)
Acquisition of financial assets at fair value through other comprehensive income	-	(419,725)	419,725
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	(369,725)	-	(369,725)
Net sales/(acquisition) of financial investments at amortized cost	-	-	-
4. Dividends Received from Investing Activities	2,044	-	2,044
Dividend inflows	-	2,044	(2,044)
B) Net Cash Flows from Investing Activities	**(414,690)**	**(414,690)**	**-**

FINANCING ACTIVITIES	Regulatory Financial Reports	Principal Financial Reports	Difference
Financing Activities			
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	(57,279)	-	(57,279)
Increase in borrowings	-	373,287	(373,287)
Borrowings repayment	-	(430,567)	430,567
Lease repayment in accordance with IFRS 16	-	(24,343)	24,343
2. Net Increase/ (Decrease) in Issued Debt Securities	-	-	-
3. Net increase / (Decrease) of Additional Capital Instruments	-	-	-
4. Increase in Share Capital	-	-	-
Increase in share capital	-	-	-
5. Dividend Paid	-	-	-
Dividend outflows	-	-	-
6. Other inflows / outflows from Financing Activities	(24,343)	-	(24,343)
C) Net Cash Flows from Financing Activities	**(81,622)**	**(81,622)**	**-**

TOTAL	Regulatory Financial Reports	Principal Financial Reports	Difference
Cash and Cash Equivalents at the Beginning of the Year	**4,081,541**	**4,081,541**	**-**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**-**	**-**	**-**
Cash and Cash Equivalents at the End of the Year	**6,501,311**	**6,501,311**	**-**

Cash Flows Statement for 2021 reconciliation (continued)

1. The amount of HRK 66,116 thousand within Impairment and Provisions in regulatory financial reports is disclosed within Losses from impairment of loans and receivables from customers and other assets in the amount of HRK 65,804 thousand and within Provisions for liabilities and costs in the amount of HRK 307 thousand in statutory financial reports.
2. The amount of HRK 7,593 thousand within Other non-monetary items in regulatory financial reports is disclosed within (gains)/losses from FX differences in statutory financial reports
3. The amount of HRK 107,285 thousand within Accounts with CNB in regulatory financial reports is disclosed within Net (increase)/decrease in mandatory CNB reserve in statutory financial reports.
4. Gains/losses from sale of tangible assets in the amount of HRK 5,029 thousand, Loans and advances to other clients in the amount of HRK 446,381 thousand, Securities and other financial instruments held for trading in the amount of HRK 172,074 thousand, Other assets from operating activities in the amount of HRK 19,526 thousand, Deposits from financial institutions in the amount of HRK 69,619 thousand, Transaction accounts of other customers in the amount of HRK 890,116 thousand, Saving deposits from other customers in the amount of HRK 1,918,207 thousand, Term deposits in the amount of HRK 775,064 thousand, Derivative financial liabilities and other liabilities for trading in the amount of HRK 21 thousand, Other liabilities in the amount of HRK 236,166 thousand, Collected interest from operating activities in the amount of HRK 484,505 thousand, Paid interest from operating activities in the amount of HRK 30,807 thousand, Inflows from securities and other financial instruments from investing activities collection in the amount of HRK 369,725 thousand and Net decrease in loans received from financing activities in the amount of HRK 57,279 thousand within regulatory reports are disclosed within Net increase in loans and advances to customers in the amount of HRK 441,654 thousand, Net decrease in financial assets at fair value through profit or loss in the amount of HRK 172,074 thousand, Net increase in financial assets at fair value through other comprehensive income, Net decrease in financial assets at amortized cost in the amount of HRK 1,534 thousand, Net decrease in other assets in the amount of HRK 19,526 thousand, Net decrease in deposits from banks in the amount of HRK 69,619 thousand, Net decrease in customer deposits in the amount of HRK 2,032,940 thousand, Net increase in other liabilities in the amount of HRK 236,166 thousand and on the item Sale of financial assets at fair value through other comprehensive income in the amount of HRK 50,000 thousand and item Acquisition of financial assets at fair value through other comprehensive income in the amount of HRK 419,725 thousand, as well as the increase in Borrowings in the amount of HRK 373,287, Repayment of borrowings in the amount of HRK 430,567 thousand and Lease repayments in accordance with IFRS16 in the amount of HRK 24,343 thousand in the statutory Financial statements.

Differences in other items are purely semantic in nature and there is no mismatch between cash flows statements for 2021 in the regulatory financial reports and statutory Financial statements

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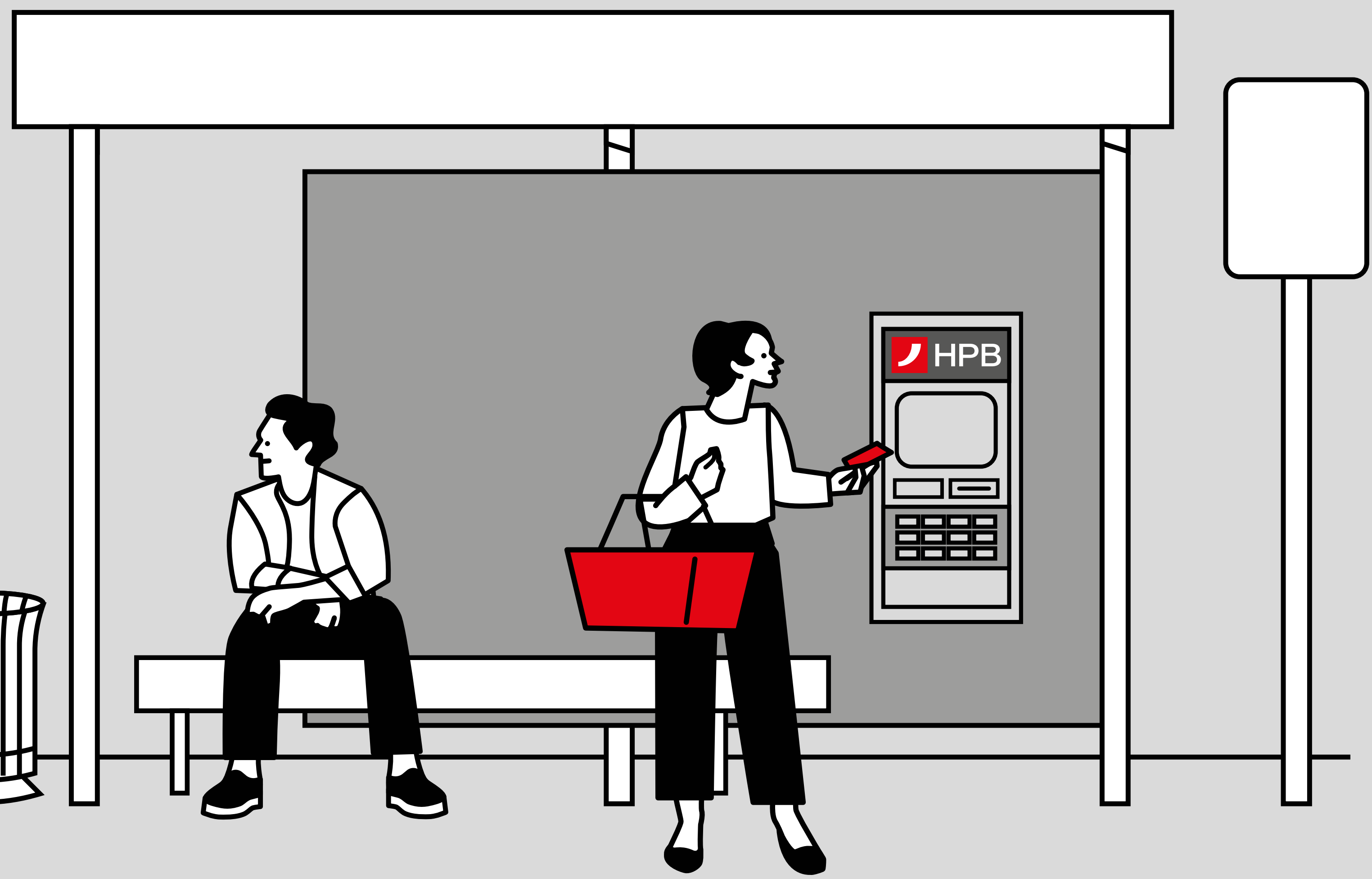
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