# SBERBANK d.d., Zagreb

## ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

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Sberbank Europe AG, headquartered in Vienna, Austria, is a banking group that is 100% owned by Sberbank of Russia, the largest bank in Russia. Sberbank of Russia is servicing more than 70% of the Russian population. The European subsidiary Sberbank Europe is present in eight European markets: Austria, Germany, Bosnia and Herzegovina (Sarajevo and Banja Luka), Croatia, the Czech Republic, Hungary, Slovenia, and Serbia. Sberbank Europe Group has around 773,500 customers, operates 187 branches, and counts around 3900 employees across Europe.


Sberbank Europe markets of presence

## Strategy

Since Sberbank of Russia acquired Volksbank International in 2012 as part of the international expansion strategy and rebranded it into Sberbank Europe, major steps have been taken to gradually transform Sberbank Europe into a fully-fledged, self-funded, and profitable European banking group with a strong focus on retail, small and medium-sized enterprises (SME) and corporate customers in Central and Southeastern Europe (CEE/SEE). As an integral part of one of the most dynamic and successful financial providers in the world and the largest bank in Russia, Sberbank Europe aims to build sustainable bridges between Russia and the European markets.

The vision of Sberbank Europe is to win customers for life, be a bank of the first choice for the daily customers' transactions and become a strong partner supporting the cross-border business between Europe and Russia/CIS – the markets of Sberbank Europe's presence.

For Sberbank, having a mixture of universal and tailored products portfolio with attractive conditions for retail, SME, and corporate clients as well as following the purpose of adding value and ensuring a high level of satisfaction are the key factors in building and maintaining long-standing and robust relationships with our customers. The bank has experienced a continuous growth of its customer base in the markets of its presence in the last years, demonstrating the ever-thriving customers' trust. After launch of business on the German market in 2014, Sberbank Europe has substantially expanded its operations by providing high-quality services to local customers. In 2018 the product portfolio was expanded with the consumer instant loans and in 2020 the new credit protection insurance product was successfully introduced. Further expansion in the product range (current accounts and credit cards) is planned for the next years and will be aimed to build a stronger connection between the bank's offering and the customer needs.

After 2018 and 2019 outstanding years of robust performance and strong business achievements in SBEU Group, 2020 turned to be an extraordinary year. A year, which brought unprecedented challenges and risks in the daily business of the Group requiring the management across the whole organization to remain rigorous and take brisk decisions to secure the operational resilience and continuity of the whole business. COVID-19 pandemic turned to be a “game changer” in the banking business, though bringing both a high risk to the business sustainability overall and creating new opportunities for business transformation, which banks have not considered before. SBEU Group was not an exception, being a front-runner in implementing the measures to bolster its business, supporting customers and protecting employees in this challenging time.

COVID-19 pandemic had an immense effect on the global economic development turning it into sluggish mode, echoing in local countries and making the local economies very fragile and vulnerable to the evolution of the outbreak. The decrease in overall business activity and level of transactions, business closures and stoppages were among the factors hindering the business development in 2020. n 2020, throughout the year the Group observed the following direct and secondary effects and implications from the government and local regulators’ actions and overall market turbulence on its business including the wide implementation of the loan moratoriums; depreciation of the local currencies affecting the EUR-denominated balance sheets and income statements on a Group level; various monetary and fiscal policy changes including the decrease in local repo rates affecting interest income generation and overall profitability of the business; changes in market conditions and market performance resulting in losses on securities portfolios, challenging income on derivative business.

The COVID-19 pandemic response by both the Group and local management can be considered as successful, timely, consistent and effective. All-in-all the Group managed the crisis, focusing on the health of its customers and employees, sustainable liquidity and capital positions and providing extensive support to its customers aiming to bolster their businesses. Overall the level of COVID-19 business loss was minimized, the Group maintained stable deposit and liquidity positions across all banks and did not experience any major deposit outflows.The examples of COVID-19 pandemic responses implemented by the Group included: strong overall crisis management; maintaining strong capital and liquidity positions; extensive support of the customers; adequate risk provisioning and broad implementation of OPEX oprtimisation plans.

To remain sustainably successful and profitable banking group in challenging times, Sberbank Europe is convinced more than ever that it needs to offer extraordinary services supported by fast and efficient processes, digital end-to-end customer journey as well as seamless and unified customer experience across all channels.

Accelerated digital transformation, continuous technological evolvement, and recent demographic developments are all the main drivers behind the ongoing changes in the customers' needs and expectations towards their financial providers. Sberbank Europe knows that the only way to best satisfy these demands is to undergo a deep transformation by becoming a banking group with a strong digital edge. Consequently, Sberbank Europe is digitalizing and simplifying all its processes in order to deliver high-quality, convenient, and competitive products at fair conditions that are available both online and offline, wherever our customers approach us.

In 2020, Sberbank Europe AG continued the implementation of two large Group IT projects that will help to gain market advancement and momentum on the path to its digital evolution:

- The OCP program (Omnichannel platform) with the solution from Backbase, state-of-the-art provider of Online and Mobile Banking. The program is aiming at strengthening the customer-centric approach by rolling out the modern digital platform across the Group, while improving customer satisfaction, enriching the customer experience with innovative solutions and taking the fulfillment of customer needs and demands to the next level.
- The FRMP program (Financial and Risk Management Platform) aiming at introducing the one platform for major financial and risk calculation modules in the Group while improving the data quality, processing speed and automation, unification, simplification and flexibility standards in reporting and planning.

The bank has substantially strengthened its funding profile in the last years, where the share of customer deposits was continuously increasing. Such a strong funding base supports Sberbank Europe business expansion with its local customers and partners, contributing to further development and prosperity of the CEE/SEE region.

Sberbank Europe's business model is based on five strategic pillars:

- **Profitable & self-sustainable**: Sberbank Europe pursues self-sustainable growth, focuses on high-margin products and businesses, exercises prudent capital management while further boosting the business in the local banks. Stable income streams, improved asset quality, and enhanced risk management will be the main contributors to sustainable business growth and profitability strengthening in the years to come.

- **Customer-oriented**: Customer centricity is at the heart of every successful business. That is why Sberbank Europe has made high customer satisfaction, strengthening the customer experience and excellence within its top priorities. To build an excellent relationship, attract and retain the customers in the market, Sberbank is always trying to exceed the expectations by continuously upgrading its product offerings, providing new channels, and entering new partnerships.

- **Modern bank**: The future vision for Sberbank Europe is to be a hybrid bank – a fully digital bank with a physical presence. Sberbank's ambition is to service its ever-increasing tech-savvy customers to the highest quality standards by undergoing a complete digital transformation by introducing omnichannel banking tools and expanding its digital products portfolio.

- **Light bank**: Being an agile institution in a fast-moving and dynamic banking landscape, is what sets us apart from the rest. Sberbank Europe continues to improve its operations by implementing state-of-art efficiency measures characterized by strict cost management, robotization, process automation, branch network optimization, competency improvement, and effective steering among others.

- **People-focused**: One of the core strengths of Sberbank Europe is its diverse and competent human capital. We at Sberbank strongly believe that the way we treat our people will directly affect and reflect on the services we provide to our highly valued customers. For this reason, to retain and attract the best talent in the region, we aim at promoting open culture and at providing the best environment for our employees to grow, through implementing leadership and succession planning, talent management and acquisition, training and workshops, helping them to strengthen their core competencies.

**Products and services**

| **RETAIL BUSINESS** | **CORPORATE AND SME BUSINESS** |
|---|---|
| Mortgage and consumer loans | Investment and liquidity financing (working capital / overdraft), Schuldschein loans |
| Current accounts and savings products | Trade finance & transaction banking |
| Credit cards | Supply chain finance / factoring |
| Focus on digital banking & partnership programs | Treasury products |
| Sberbank Direct in Germany: online retail bank offering term deposits, saving accounts and instant loans and credit protection insurance | Project & real estate financing |

Dear shareholders, clients and partners!

On behalf of the Managing Board of Sberbank d.d. I am honoured to present you the most important information and key figures from the 2020 Annual Report.

The year 2020 will be remembered as a very challenging year marked by the COVID-19 pandemic and earthquakes, and as a year that yielded a high level of uncertainty, requiring much adaptation to new conditions in which to do business, all of it in a very short period of time. After the previous exceptionally successful 2019, in 2020 the Bank was operating at a loss, mainly as a result of the macroeconomic impact that was also reflected in the customer business. In the face of the pandemic and earthquakes, the Bank has adopted a number of measures to make it financially easier for its customers to get through an extremely difficult time. Measures such as a moratorium on loans and credit card obligations, the suspension of the fees charged for online and mobile banking payments, the extension of the utilization of permitted current account overdrafts, cash withdrawals at ATMs free-of-charge in all banks also had an impact on the Bank's revenues. It is important to point out that the Bank successfully maintained business continuity and was at the disposal for its customers without interruption. Moreover, in a very short period of time, the Bank ensured telework for as many as 70% of its employees. Despite the new circumstances, the Bank's implemented Strategy has not changed; some initiatives did gain greater importance, such as IT system optimization, digitalisation and process automation.

Bottom line loss, however, is generated from negative revaluation of securities and provision for CHF legal suits. During this challenging period, Bank’s strong capital and liquidity positions and sound risk management were confirmed. In highly liquid market with downward pressure on interest rates, Bank managed interest margin by optimising liabilities structure and sales efficiency. Opex stringent governance model and savings plan decreased fixed cost and contributed to stability and profitable business model from customer business. . Gross loan portfolio has increased 8% compared to the end of 2019 and deposits from customers 5%, with stable development throughout the year.

The digitalization process of the Bank’s operations successfully continued. The Bank implemented a new platform and launched the **new Sberbank online banking service** that combines mobile and internet banking transactions and services. The new service aims to achieve improved user experience and simplicity and intuitiveness of the service. The year was marked by a **significant increase in the number of users of online banking services, namely 55.5% in mobile banking and 33.5% in online banking users**. A growing trend is also evident in the increasing use of mobile banking vs. online banking, with mobile banking usage increasing by 95%. It was also the year in which the use of online channels as well as card payments was actively encouraged, yielding an 8.5% **increase in payment card usage** in terms of volume and 12% in terms of number of transactions. A particularly large increase was recorded in using payment cards for online shopping.

In the **Retail business segment (private individuals)** the Bank recorded a growth of its credit portfolio by 10%; the focus was on cash loans. The structure of the funding sources has been improved through adequate activities and products with standard offer of deposit products and a new innovative term deposit product - DUO savings. Increase in the number of primary clients, as well as active clients, and a growth in transaction account volumes has been achieved. In the **utility payment segment in 2020 the Bank achieved a transactions growth of 4%**, despite the market-wide downturn in this segment of 10%, and a growth of 23% from utility payment fees compared to 2019.

The Bank continued to build a network of business cooperation and expanded its offer with new non-bank services, with Triglav osiguranje becoming the Bank’s exclusive partner in credit intermediation services. The insurer operates a wide network of outlets, covering areas where the Bank is not present.
Business cooperation with twenty car dealers across Croatia was also launched, the objective being to place cash loans of the Bank for the purchase of cars.

The **Micro clients business segment** in 2020 was mostly marked by activities related to the consequences of the COVID-19 pandemic, as this segment is most affected by long- or short-term liquidity shortages. The Bank developed and adopted a number of measures to relieve clients in terms of the their monthly credit obligations, approving loan reprograms for more than 250 clients, or more than 95% of all requests received. The cooperation with HBOR (Croatian Bank for Reconstruction and Development) and HAMAG BICRO (Croatian Agency for SMEs, Innovations and Investments) continued with a range of credit programmes earmarked for aiding clients affected by the COVID-19 pandemic.

The **SME business segment** is a strategic determinant of the Bank, and despite the market situation caused by the COVID-19 pandemic, while retaining the primary focus on the relations with existing clients and maintaining the quality of the existing portfolio, the Bank’s acquisition activities continued, generating an increase in total placements of almost 15%.

In late 2020 the Bank introduced the Green and Orange current account packages for micro and small entrepreneurs; by bringing together several services and products as part of a single package, the Bank enabled savings and optimization of the operations for its customers.

In the **Corporate business segment** the pandemic diverted the focus of the Bank’s activities on maintaining portfolio quality while maintaining existing volumes. Despite the further reduction in market interest rates, the trend of loan prepayments was successfully halted and the quality and level of the existing portfolio preserved.

The **trading activities of the Global Markets segment** in 2020 were characterised by a significant increase in volatility in global markets as a result of the start of the COVID-19 pandemic. Despite a very challenging year the Global Markets unit achieved a positive result in all trading segments, which however did decrease in overall compared to 2019, especially in the bond trading segment.

**Maintaining the quality of its credit portfolio** was one of the Bank's main strategic objectives in 2020 and the Bank successfully maintained a stable NPL ratio below 5% as at 31 December 2020, given special emphasis on collection efficiency.

The Bank continued to make significant efforts towards **improving efficiency and optimization of processes** at the level of the entire organization. By the end of 2020, an additional 10 processes had been robotized, bringing the number of total robotized processes to 19. Additional automation and process optimization continued with the introduction of the BPM (Business process management) technology.

In 2020, Sberbank's **clear and continuous marketing communication** which focused on credit and savings products contributed to the Bank’s market recognition. This has been a year of solidarity and humanity and the Bank has launched the SberCARE initiative in which several internal and external initiatives of various forms of aid and support have been launched towards employees and the community in which the Bank operates. Special mention deserve several donations made and the offer of anti-stress content specifically designed for children at the time of the pandemic through the interesting story-telling project called “Pričarolija” in which Croatian actors who lost their income and engagement in theatres during the lockdown read stories to children on the Bank’s YT channel.
The emphasis was also on intensive internal communication and building a stimulating organizational culture in which employees will feel motivated and satisfied despite the extraordinary circumstances of work. In response to the need for rapid adaptation to new working conditions “Sberbank učilica” was launched, an internal online academy offering educational programs for employees. In 2020, the job rotation initiative was also launched to promote internal mobility and learning through acquiring new knowledge, and a plan of new initiatives was also elaborated to increase employee engagement.

## CHAIRMAN'S REPORT

We look back at a year that was full of uncertainty, but despite the great business challenges we placed new innovative products, launched new initiatives, maintained business continuity, enabled employee mobility and took care of clients and employees. I would like to thank all our business partners and clients for the trust they have given to us. We have clear strategic objectives ahead of us, we will continue to focus on clients, digitalization and innovative products along with social awareness. In 2020 we have shown how quickly we are able to adapt to market conditions, which is a prerequisite by which we can ensure business growth and strengthen the influence of Sberbank in the local market.

Csaba Soós

Chairman of the Board

| KEY FIGURES (overview) - in mln HRK | 2020 |
|---|---|
| **Balance sheet total** | **11,058** |
| **Deposits from customers** | **8,010** |
| **Loans to customers** | **7,358** |
| **Operating income (without interest and fee expenses)** | **404** |
| **Operating expenses (including interest and fee expenses)** | **311** |
| **Pre-tax profit/loss** | **(24)** |
| **Number of employees** | **480** |
| **Number of branch-offices** | **31** |

**Private Individual Segment**

In 2020, lending activities in the **Private individual segment** were focused primarily on cash loans and preserving the stability of the credit portfolio, allowing clients to the maximum extent possible to overcome the crisis caused by the extraordinary circumstances of the COVID-19 pandemic and earthquakes.
At the beginning of the year, the Bank placed on the market the **Cash back** loan which has the unique benefit of a repayment up to HRK 10,000 of the paid interest for all clients who are regularly servicing their loan. This new offer was supplemented with a special offer of housing loans called "**Happy month**", offering very favourable lending conditions.
Due to the earthquake that struck Zagreb in March 2020 and the outbreak of the COVID-19 pandemic, following the recommendations of the Croatian National Bank in April, the Bank adopted a number of measures for clients and enabled the arrangement of **moratoriums on loans** and credit cards, temporarily suspended forced collection activities and the calculation of default interest, terminated fees charged for cash withdrawals at ATMs of other banks and for payments through online banking. The Bank also started issuing contactless debit Maestro cards to customers-holders of protected accounts and extended the use of allowed overdraft facilities to an additional 12 months for clients whose regular income decreased or did not receive their regular income on the current account. All of these measures aimed to provide clients with financial relief during the extraordinary period of the pandemic and earthquakes. Following the regulator's recommendations, clients also had the option to apply for a moratorium on loans by September and the Bank approved nearly 4,000 requests during this period.

In late September, the Bank presented the "**Happy offer**", i.e. special offer of housing loans with very favourable interest rates and other financing conditions to clients as an alternative to APN subsidized loans. At the end of the year, the "**Simple cash loan**" was launched whose advantage was a simple and straightforward procedure of granting loans based on only one document – a certificate of the employer. The offer was accompanied by a memorable marketing campaign.

In December, all interested private individuals were offered cash loans as part of a special campaign called "**Happy week**" with a promotional interest rate for all clients applying for a loan in the designated week of the campaign. The offer was extended for another week due to a large interest of the clients. In those weeks, the Bank further customized the cash loan offer for its customers by introducing the same price for fixed and variable interest rate loans for the entire loan repayment period. All these activities resulted in an increase in the Bank's loan portfolio of 10% compared to the previous year.

The structure of the Bank's funding sources has been improved by taking adequate activities and product offerings.

The increase in the number of primary clients in 2020, coupled with an increase in the number of Green and Orange current account packages, has resulted in significant **growth in transaction account volumes**.

In addition to the standard offer of deposit products, the Bank introduced a new and **innovative term savings product: "DUO savings"**. The product combines the advantages of the "IN savings" product with flexible savings terms and of the "Standard savings" that is arranged for a longer period (24 or 36 months), with additional bonuses. The new deposit product has helped preserve the savings portfolio.

In 2020, the Bank recorded a **growth of almost 5% in total retail deposits**, primarily of funds held in transaction accounts (+21%). Regardless of the global pandemic, we have recorded positive growth and a development trend of the structure of the liabilities which were slightly better than the average trends on the market. This was primarily the result of timely reactions, good retention measures and the introduction of new products-term deposits such as "DUO savings" and the waiver of charging various fees from clients.

**In the utility payment segment in 2020 the Bank achieved a transactions growth of 4%**, despite the market-wide downturn of 10%. In this segment, the Bank, together with the outlets of Tisak and Konzum, holds a 43% share in the overall market (utility bills paid in person) by number of bills paid and we achieved 23% higher income from the underlying fees compared to the year before. The expansion of this payment method by introducing MasterCard and Maestro payment cards for paying utility bills and the continuous promotion of this payment method greatly contributed to such a result.

**In 2020, the number of primary clients increased by 9%** and the number of Green and Orange current account packages by 8%. We also recorded a 15% increase in approved overdraft limit portfolio and 17% increase of overdraft in use compared to 2019. The growth of overdraft portfolio was achieved through the introduction of tranches of pre-approved overdrafts (two tranches during the year). Consequently, the approval of overdrafts also increased the Maestro on instalments portfolio and volume utilisation, leading to the increase in fee revenues (14%).

**Online services**

In 2020, the process of digitalization of the operations continued; the online banking system was developed on two platforms. As part of the existing platform, new functionalities have been developed in the "Sberbank2go" mobile application - biometrics, loyalty and push-notification for authorizing internet banking transactions, along with continuous upgrades aimed at increasing the security when using the application.

A new Group digital platform was also implemented and a **new Sberbank online service** was launched that combines mobile and online banking on one platform. Sberbank Online brings a new user experience through better usability, improved visibility and use of the service, and ultimately makes it easier for our customers to manage their finances. The design of the new application is highly intuitive, user-friendly and visually aligned for mobile and internet banking.

At launch, the application offered a set of the most important functionalities necessary for the day-to-day management of finances, and the application was released only for a certain number of clients. By the end of the year, the application had 1.500 users.

In 2020, the **number of online banking customers increased significantly** compared to the previous year, namely 55.5% of mobile banking and 33.5% of online banking. There is also a positive trend of mobile banking use in relation to online banking - the use of mobile banking services increased by 95%.

**Card operations**

Sberbank has successfully implemented a number of preventive measures for payment card operations as a consequence of the COVID-19 pandemic, was among the first to provide new higher limits for contactless payments and was the first bank to offer a moratorium for credit card obligations.

In 2020, a **new verification method for online shopping** has been implemented, which brings a higher level of security for online payments, and at the same time simplifies payments, as the transaction is verified in the mobile application without the need to enter additional data.
At the end of the year, the **migration to the Chip & PIN** technology was completed, and all Sberbank MasterCard credit cards were migrated, which increased security in the use of cards at points of sale and simplified the overall user experience. In addition, this migration also enabled all holders of MasterCards to make contactless payments at points of sale, as well as cash withdrawals at ATMs (having contactless functionality).
The year 2020 yielded an 8.5% **increase in payment card usage** in terms of volume and 12% in terms of number of transactions, making it evident that Maestro and MasterCards are more and more used for transactions of smaller amounts, as well. A particularly large increase was recorded in using payment cards for online shopping (+34.5% in terms of overall volume and +18.6% in terms of number of card transactions).
As a result of the fact that payment cards which are part of the MBnet network are now accepted at Konzum, acquiring revenues increased tenfold. There was also a 12% increase in the number of Maestro cards compared to the previous year, and in 2020 Maestro cards for protected accounts were also offered to customers, while the number of MasterCard cards increased by 21%.

**Partnership**
In cooperation with its business partners, the Bank continues to offer a wide range of non-banking products, such as insurance products in cooperation with the insurer Triglav osiguranje d.d., investments in mutual funds in cooperation with InterCapital Asset Management d.o.o. and investing in voluntary pension funds in cooperation with the pension fund managed by the insurance company Croatia osiguranje. Clients have recognized the benefits of investing in insurance and investment products, and the Bank continuously and closely monitors the needs on the market in this segment, adapting the offer of products accordingly. Hence, in 2020, after the earthquake that hit Zagreb in March 2020 and due to the COVID-19 pandemic, the focus was on adapting the offer to the demands of the market. The customers can now arrange supplementary health insurance in the Bank's branch-offices; when arranging a cash loan, it is possible to contract insurance covering periods of unemployment or sick leave or death; property insurance policies can now include coverage from earthquake damages.
The **credit intermediary sales channel** continues to contribute to the Bank’s overall result, with a 23% share in the total volume of cash loans. In addition, there was a significant increase in the volume of housing loans where this channel participates with a 18% share in the overall volume.
Triglav osiguranje is now the Bank’s exclusive partner in credit intermediation, operating a network of outlets in areas where the Bank is currently not present. Cash loans in the total amount above HRK 15 million (EUR 2 million) were paid out in 2020, based on the cooperation with 37 active agents.
In 2020, the **Bank@Work** (B@W) unit continued its business activities with enhanced cooperation with the SME and Corporate Banking units of the Bank and a focus on the existing employers and their employees, holding a total share of 28% in the disbursed cash loans and a 40% share in arranged current account packages. Housing loans also saw a 33% increase. In 4Q2020 the B@W unit introduced a premium offer for the Top 10 selected employers, the objective being to increase the number of high-quality primary clients of the Bank. Overall production through the B@W sales channel is continuously increasing, making a significant contribution to the Bank’s overall result.
In 2020, the **car dealer sales channel** was launched that refer their own customers to the cash loans offered by the Bank, and business cooperation agreements were concluded with 20 car dealers covering the entire territory of Croatia. In total, cash loans worth over HRK 7.5 million (EUR 1 million) were paid out in 2020.

**Legal Entities Segment**

Like other customer segments, the **Micro client segment** in 2020 was mostly marked by activities related to the consequences of the COVID-19 pandemic. This segment, given the high sensitivity to market trends, as well as the exposure to business activities mostly affected by the restrictions resulting from the pandemic (HORECA, tourism, transport of goods and persons, cultural activities), was generally most affected by long- or short-term liquidity issues.
As early as in March 2020, the Bank elaborated and adopted a number of measures to make it financially easier for its customers with respect to their regular monthly credit obligations, in the form of standstills (waiver from activating loan collaterals), granting moratoriums, reprogramming, and, if necessary, restructuring liabilities with new loans. As a result, loan reprograms were granted to more than 250 Micro clients or more than 95% of all the applications received.

The Bank signed a contract with HBOR (Croatian Bank for Reconstruction and Development) for a new credit line for financing working capital, as well as prolonged the term for using the existing credit line for financing investments, thus ensuring limits for working capital loans and investment loans for financing micro, small and medium-sized enterprises, with very favourable conditions for the Bank's clients. Two new frame loan facilities have also been arranged with HBOR to support entrepreneurs whose operations were at risk as a consequence of the COVID-19 pandemic, as well as a portfolio guarantee for exporters.
In addition to the previously arranged HAMAG-BICRO guarantee schemes, the Bank concluded a new ESIF contract in 2020 – Limited portfolio guarantee, which further enabled the financing of micro and small companies with boarder-line credit rating or insufficient loan collateral. Furthermore, two additional agreements were concluded to assist entrepreneurs whose operations were threatened by the consequences of the COVID pandemic, namely for activities in culture and transport.

At the end of 2020, Green and Orange account packages for micro and small entrepreneurs were introduced; by consolidating several services and products “under one roof”, the Bank enabled the customers to achieve savings on fees for certain services and products in the package, to benefit from reduced fees for selected payment transactions, as well as free car assistance for the entire period of using the package.

The **SME business segment** is a strategic determinant of the Bank, and despite the market situation caused by the COVID-19 pandemic, while retaining the primary focus on the relations with existing clients and maintaining the quality of the existing portfolio, the Bank’s acquisition activities continued, generating an increase in total placements of almost 14%.
In order to support its clients in the situation caused by the consequences of the pandemic, the Bank reacted promptly and offered various measures aimed at facilitating the repayment of commitments. Like other financial institutions, credit deferrals of up to six months were initially offered for customers who expected to have difficulty repaying their credit obligations due to loss and decreased income.
In order to provide high-quality service to clients and faster approval of facilities, the earlier implemented credit process optimization and new segmentation of SME clients has fully come to life in 2020 and adequate service is provided to this specific customer segment.

Due to the COVID-19 pandemic, in the **Corporate segment** the focus was put on maintaining the quality of the portfolio and maintaining the existing volumes. Despite the further reduction in market interest rates, which began due to reduced investment activity as early as 2019, which resulted in further increase of excess liquidity available in the market, the trend of loan prepayments was successfully halted and the quality and level of the existing portfolio preserved.

The **Trading activities of the Global Markets** segment in 2020 were characterised by a significant increase in volatility on financial markets as a result of the start of the COVID-19 pandemic.This situation in the first half of 2020 has caused a strong drop in the prices of Croatian government bonds

and continued depreciation pressures on the domestic currency. During the second half of 2020, under the positive influence of the suspended lockdown, the tourist season and the continuous FX and bond redemption auctions of the Croatian National Bank, the domestic market stabilized and strongly recovered compared to the early period of the pandemic. Despite all of these turbulences, the Global Markets unit achieved a positive result in all trading segments, which however did decrease in overall compared to 2019, especially in the bond trading segment.
In the **Sales segment**, revenues decreased by approximately 15%, mainly as a result of reduced economic activity of clients during the year, limited tourist season and reduced risk-taking willingness of clients in the conditions of the global pandemic. However, during the second half of the year, a large part of the clients who reduced their activities at the beginning of the year returned to the market and there was a trend of normalization of sales activities in terms of volumes and revenues achieved.
Also, during the year, the project of additional quality improvement of EMIR and MiFIR reporting was completed, thus creating preconditions for further business development in the GM segment.

## Risk management

Sberbank d.d. was continuously strengthening its risk management system through different activities in cooperation with the Sberbank Group. The Risk Strategy of Sberbank d.d., consistent with the Group's Risk and the Business strategy, is aimed at setting up the general parameters for prudent and continuous management of all risks inherent to the Bank’s business model.
Key principles for ensuring consistency of the overall capital and liquidity adequacy were integrated into all business activities, strategic planning across organization and developing business consistently within the defined risk appetite. Stress testing which was regularly conducted and monitored within the risk bearing capacity framework increased the Bank’s resistance to macroeconomic risk. The process ensuring adequate level of regulatory and internal capital is harmonized with the current and expected regulatory requirements.

**Maintaining the quality of the credit portfolio** was one of the Bank's main strategic objectives in 2020, with a strong and full commitment from the Bank's Managing Board in the process. The Bank successfully maintained a stable NPL ratio (4.81% as of 31 December 2020). The Bank has achieved its strategic goal by focusing on key points of improvement, such as process automation, improving efficiency of collection, further improving the Pre-Workout (PWO) function and establishing a transparent, credible and achievable strategy for reducing non-performing loans.
Further fostering of collection processes efficiency, proactive tailor-made restructuring, collection (repayments as well as healings) and debt sale activities, together with expected improvements arising from the implementation and utilization of the new tools, increased overall recovery and helped to fulfil one of the strategic targets of the Bank, manifesting itself in a NPL ratio below 5%.

Following areas under credit risk management have been improved even further in 2020:

- automation of the lending activities
- monitoring and analysis of the credit portfolio which includes a review and assessment of the credit portfolio quality, in particular close monitoring of the identified and potentially non-performing loans
- upgrades of internal models for quantification of credit risk parameters continuously used in day-to-day business for the purpose of determining the customer’s creditworthiness, as one of the criteria for making risk decisions and for monitoring the relevant activities on portfolio level
- local and Group risk planning with the goal of achieving improved quality of the credit portfolio defined within the Risk Appetite Statement (RAS) consistent with the Bank’s long term business plan
- in the area of market and liquidity risks, the Bank continued to improve processes related to managing, monitoring and controlling exposure to market risks and liquidity risk according to business needs.

In the area of liquidity risk management, the Bank:
- continued improvements of liquidity reporting system according to the requirements and recommendations of the supervisors with special focus on data quality indicators
- improved controls of the regulatory reports, with a focus on the reports covering additional monitoring parameters for liquidity reporting (ALMM)
- revised the internal limit framework.

In the area of interest rate risk (IRR) management:
- the Bank continued to improve the process related to interest rate risk management in the banking book, in line with the supervisor's recommendations and good business practices

In the operational risk management regular processes were conducted:
- collection of data from operational risk events
- performing of operational risk self-assessments in each department
- continuous training and raising of the employee’s level of awareness on operational risk management (incl. outsourcing and internal control system), methods of management as part of internal education and on-line operational risk tests
- optimization of the application used in fraud prevention processes and additional process upgrades

As regards the COVID-19 pandemic, the Bank is taking all necessary measures to continue providing high quality services to customers. The Bank has begun intensive monitoring of clients' operations to support customers and avoid an increase in NPL. In addition, the Bank draws up capital projections to ensure due compliance with regulatory capital ratios. Given all these measures, the Bank's business continuity has not been compromised or called into question.

**Back office**

The Bank continued to make significant efforts towards **improving efficiency and optimization of processes** at the level of the entire organization. By the end of 2020, an additional 10 processes had been robotized, bringing the number of total robotized processes to 19, and the number of transactions executed in 2020 exceeded the total number of transactions from the previous 3 years, reaching 184,000. In addition to the robotization of processes in the Business Support dept., several processes of other organizational parts of the Bank were also robotized.
During the COVID-19 pandemic, robots were engaged with recording retail credit moratoriums, contributing to significant savings in terms of time and resources spent. As a result, all moratoriums were entered in the Bank’s systems within the same or the following working day.
In order to achieve greater awareness of the importance of robots in the Bank's processes, a promotional film was shot; at the end of the year the first in a series of workshops on robotization and suitable processes was held.
Additional automation and process optimization continued with the introduction of the BPM technology (Business process management) that supports the applicative development of new processes with minimal use of the Bank's IT resources. The first in a series of processes developed based on the BPM technology is the opening of accounts for legal entities (all segments) that has so far been done manually. In addition to the process now being automated and applicatively covered, an additional service has been designed for customers who for the first time can request the opening of an account and the delivery of documentation to the Bank online. With this process, the goal is to increase efficiency in the communication with the Bank and to provide clients with a better user experience.

## Marketing

Despite a very challenging year, marketing activities in 2020 have successfully followed the business plan with a focus on promoting cash loans for private individuals. The Bank had two major media campaigns, one campaign for the "Cashback loan" in early 2020 and the second one for the "Simple cash loan" at the end of the year. In line with the best practices, the “Happy Week” campaign for a limited-time cash loan offer at a reduced interest rate was also launched.
Marketing activities also focused on housing loans through the "Happy offer" campaign and innovative deposit products, “DUO savings” and “IN savings”. All campaigns contributed to the recognition of Sberbank on the local market and creative solutions differentiated the Bank from its competitors.
As part of its corporate social responsibility strategy, the Bank focused on society, children, culture and sport and in 2020 followed these guidelines despite a very challenging year, marked by the COVID-19 pandemic and earthquakes. The Bank launched the SberCARE initiative as an umbrella initiative for all activities aimed at helping the wider community.
Under the auspices of this initiative, Sberbank launched a fun and educational project for children called “Pričarolija” and made donations to help primarily in remediation of the aftermath of the pandemic and earthquakes. After the Zagreb earthquake, equipment was donated to the Public Fire Brigade of the City of Zagreb, and after the devastating earthquake in Sisak, a monetary donation was paid to the Croatian Red Cross. Also, a donation was made supporting the public fundraising for the reconstruction of the Vrbina Children's Home. The Bank also supported the activities of the “Mali zmaj” and “Projekt sreća” associations. To support the efforts against the pandemic, the Bank donated funds to the Emergency Medicine Service for the purchase of necessary equipment.
As part of the SberCARE initiative, the SBERconnected initiative was launched, the objective being to connect and engage employees in a year where at least 50% of employees worked from home.
In order to promote culture and build cultural bridges, the project of publishing a collection of poems by the Russian poet Vladimir Vysotsky was supported. At the end of the year, the employees of the Bank have traditionally donated children living in the “Vladimir Nazor” Children’s Home in Karlovac, as well as the youngest at the Clinic for Children's Diseases in Zagreb. In 2020, the Bank the sponsored the “NK Varaždin” soccer club and the Shift Money Conference on fintechs.

## Human Resource Management

In 2020, one of the strategic initiatives was to conduct an employee engagement survey and activities in order to build a stimulating organizational culture in which employees will feel motivated and satisfied. The “Sberbank učilica” platform was launched, an online academy, with educational programs for employees and managers in response to the need for rapid adaptation with regard to new working conditions and employee mobility. Given the uncertainty and challenges brought to us in year 2020, the focus has been on intensive internal communication, strengthening leaders on how to manage teams in crisis situations, and leading employees in telework conditions. Collaboration platforms have led to a different form of cooperation, and internal sharing of knowledge has become imperative in acquiring new knowledge and skills, both in the onboarding process and in improving the know-how and competences of employees. A job rotation initiative was launched, to promote internal mobility and learning through acquiring new knowledge, by rotating employees for a period of time in order to improve the processes, additional cooperation and acquire additional competences. Sberbank also continued its Loyalty program for employees who, with their dedicated work and excellence, are enabling the growth and development of the Bank’s operations.

## Financial instruments

The classification of the financial instruments and their accounting treatment significantly affected the financial position, profitability and performance of the Bank. The disclosures related to the financial instruments are included in the Bank's financial statements.

## Principles of Corporate Governance

The Bank used the following rules of corporate governance:
- Ethical and professional behavior
- Implementation and compliance with laws and regulations
- Confidentiality of bank information
- Objectivity in dealing with clients
- Competent usage of knowledge

Banking and financial markets are, to a special extent, based on market participants' confidence. Sberbank's success ultimately depends on a solid, trusting relationship between customers, credit institution and employees. In cooperation with the Sberbank Group, the Bank prescribed its Code of Corporate Ethics and Conduct. The Code applies to all employees of the Bank, including members of the Managing and Supervisory Board. The Bank encourages its business partners and clients to follow high ethical and business standards. The Managing Board and senior management, by their example, affirm the principles of corporate governance at an operational level ("tone from the top" principle). This applies particularly, but is not limited, to: clear responsibilities in business processes, managing a conflict of interest and preventing corruption, internal control system based on the principle of the "3 lines of defence", robust system for preventing money laundering and compliance with international restrictive measures, fraud prevention and other forms of financial crime, compliance with relevant regulations, fair and honest relationship to clients with a high-quality complaint processing system, careful selection of business partners through a detailed procurement process, transparent attitude towards regulators and supervisors, adequate communication with the public, etc.
To report breaches of the Code or report any irregularities, the Bank has developed internal reporting lines (whistleblowing) that allow protection and anonymity of the reporting person, as well as a thorough investigation of the reported irregularity.

## Research and development

Other than activities mentioned above there were no other significant activities related to research and development in year 2020.

## COVID-19 pandemic impact on operations and result

The existence of novel coronavirus (COVID-19) was confirmed in early 2020, causing global pandemic, with pervasive impact on economic activity and banks operations.

Imposed restrictions in credit risk policies and on lending to specific industries led to lower new volumes in all segments. New disbursements in 2020 were lower than in 2019 by 11%. Moratorium and stand still on loans and credit card obligations, as part of COVID related measures, negatively affected interest income as well and operations of the Bank.
High liquidity on the market and postponed investments also drove interest rates decrease and shorter tenor of prolongations, hence lowered interest income.

Bank realized 1% share of moratorium in legal entities segment or the amount of EUR 46.2 million as of December 31st 2020. In Private individual segment, total share of clients in moratorium amounts EUR 3.9 million or 0.4% share of the portfolio.

Pandemic led to decrease of asset quality and increase of risk cost, mainly in Retail segment.
Risk provisions were significantly higher due to COVID-19 crisis impact (EUR 2.8 million as estimated). As a consequence of COVID 19, the Bank adjusted its IFRS9 PDs further following a conservative approach and taking into consideration that the more severe scenario was advised to be considered as the main scenario. To that end, coverage for the loan loss provision increased for the performing loans.

In the face of the pandemic and earthquakes, the Bank has adopted a number of measures to make it financially easier for its customers in transactional business as well. Measures such as suspension of the fees charged for online and mobile banking payments, the extension of the utilization of permitted current account overdrafts, cash withdrawals at ATMs free-of-charge in all banks also had an impact on the Bank's non-risk revenues; in addition to significantly lower transaction turnover and weak tourist season.

The highest negative influence was recorded in Net gains. Financial assets, namely participation in Fortenova group, were negatively revalued due to specific risk premium and COVID-19 impact on business (EUR 3.8 million). Also, pandemic situation had negative impact on fx trading and bonds. The trading activities segment in 2020 were characterised by a significant increase in volatility on financial markets as a result of the start of the COVID-19 pandemic. During the second half of 2020, under the positive influence of the suspended lockdown, the tourist season and the continuous FX and bond redemption auctions of the Croatian National Bank, the domestic market stabilized and a positive result in all trading segments was achieved, which however is significantly lower than in 2019, especially in the bond trading segment.

COVID-19 related costs increased: maintenance, post activities and collection activities. Opex stringent governance model and savings plan decreased fixed cost and contributed to stability and profitable business model from customer business. Biggest savings were realized in marketing activities, travel expenses and compensations, and postponement of some projects.

As a result, all of the profitability indicators (ROAE, CIR, CoR, NPL, among others) were negatively impacted by COVID-19.

## Events after the balance sheet date

The Bank submitted constitutional claim to Constitutional Court of Croatia against decision of Supreme court which verified the Decision of Commercial Court against all involved banks.
The decision of the Constitutional Court on the lawsuits of the banks was made on 03.02.2021 and all banks’ objections were rejected. The decision does not affect the existing legal position of the bank, provisioning approach and the amount of provisions at balance sheet date, because it was just a confirmation of the already existing Supreme and High Commercial Court decisions back in 2018, meaning that it was already taken into consideration for year 2018. and 2020. respectively. Further reference explained in details is found in Note 31 of these financial statements of the Bank.

**Branch offices**

# Supervisory Board and Management Board of Sberbank d.d.

## Members of the Supervisory Board

Aleksei Mikhailov – Board member from 01.07.2019
Dragutin Bohuš – Board member from 01.07.2019
Kornel Halmos – Board member from 01.07.2019
Dmitry Kuzin – Board member from 01.07.2019
Oleg Revenko - Board Member from 05.03.2020

## Members of the Management Board

Csaba Soós – Board member from 12.02.2020
Igor Repin – Board member from 19.07.2020
Roberto Bitunjac – Board member from 14.06.2019

### Previous Members of the Supervisory Board

Alexander Viktorović Titov – Board member until 30.06.2019
Stefan Karl Zapotocky – Board member until 30.06.2019
Rainer Schamberger – Board member until 19.08.2019

### Previous Members of the Management Board

Peter Hölger Stupar – Board member until 14.06.2019.

# Independent Auditor's Report

To the Owner of Sberbank d.d.

## Report on the audit of the financial statements

### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sberbank d.d. (the "Bank") as at 31 December 2020, and the Bank's financial performance and cash flows for the year then ended in accordance with the statutory accounting regulations for banks in the Republic of Croatia as defined in Note 1 to the financial statements.

Our opinion is consistent with our additional report to the Audit Committee dated 26 February 2021.

**What we have audited**

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

**Independence**

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Bank in the period from 1 January 2020 to 31 December 2020.

## Our audit approach

**Overview**

| | |
|---|---|
| **Materiality** | • HRK 11.5 million, which represents 1% of net assets. |
| **Key audit matters** | • Impairment to loans and advances to customers<br>• Provisions for litigations related to loans originally issued in or indexed to Swiss Franc |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| **Overall Bank materiality** | HRK 11.5 million |
| **How we determined it** | 1 % of net assets |
| **Rationale for the materiality benchmark applied** | We chose net assets as the benchmark because it is the benchmark which is closely monitored and there is a strong focus on regulatory compliance measured by the adequacy of the capital (net assets). |

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment provisions for loans and advances to customers*<br><br>As at 31 December 2020, the Bank had booked impairment provisions to loans and advances to customers in the amount of 359,954 thousand HRK.<br><br>The following notes to the financial statements describe information related to loans and advances and their impairment: Note 7 Loans and advances to customers to the financial statements, note 3 Specific accounting policies, note 4 Estimates and judgements and note 34.2. Credit risk.<br><br>Impairment provisions are the management's best estimate of expected credit losses on loans and advances to customers portfolio at the reporting date. The amount of the provisions is determined in accordance with accounting regulations applicable to banks in Croatia as explained in Note 3 to the financial statements.<br><br>The Bank applies a three-stage model for calculating expected credit losses, based on changes in credit risk since initial recognition. For loans in Stage 1 and Stage 2, the Bank applies expected credit loss calculation as required by IFRS 9.<br><br>For loans in Stage 3 individually assessed, impairment provision is determined as the difference between the book value and the recoverable amount, which represents the net present value of future cash flows, including amounts recoverable from collaterals, discounted by original effective interest rate.<br><br>We focused on this area because of the significance of these items in the Bank's financial statements and the fact that there is a judgement involved in application of the guidance for calculation of expected credit losses defined by IFRS 9 methodology and Croatian National Bank requirements. | We tested controls for approving and monitoring of loans and advances to customers, including appropriateness of classification of loans and calculation of days past due.<br><br>We have selected sample of loans and advances to customers with the focus on exposures with potentially highest impact on the financial statements due to their size and/or risk profile as well as exposures that we considered as highly risky, such as restructured and non-performing exposures, for which we have verified valuation methodology and appropriateness of staging and for which we recalculated impairment provision.<br><br>For Stage 1 and Stage 2 portfolio we have reviewed expected credit loss calculation methodology and polices for impairment provisions recognized, while for stage 3 we have reviewed supporting documentation and discussed any issues with responsible personnel in the Bank.<br><br>For individually impaired exposures, we have assessed key assumptions used in recovery scenarios, such as future cash flow estimates and recoverable value of collateral to ensure the exposures have been classified and measured in accordance with accounting regulations applicable to banks in Croatia.<br><br>Furthermore, we evaluated whether key components of expected credit loss calculation are correctly incorporated in the models and tested on a sample basis the correctness of stage allocation according to the relevant policies in order to conclude on appropriateness of impairment provision as per Croatian National Bank's requirements and any significant deviations to IFRS. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Provisions for litigations related to loans originally issued in or indexed to Swiss Franc*<br><br>As at 31 December 2020, the Bank recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs ("CHF").<br><br>Note 4, Estimates and judgements under heading Provisions for litigation initiated against the Bank, and Note 31, Commitments and contingencies under heading c) Legal proceedings, to the financial statements provide information related to these provisions for litigation claims.<br><br>The provision for litigation cases relates to loans that have not been converted and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements.<br><br>Provisions for litigation claims represent the management's best estimate over both the timing and size of the probable outflow of economic resources required to settle the obligation at the reporting date.<br><br>We focused on this area because there are considerable judgements and estimates in applying the statutory accounting regulations for banks in Croatia to estimating both timing and size of the outflows of economic resources required to settle the Bank's obligations resulting from these litigation claims, given their inherent uncertainty. | We performed the following procedures and tests:<br><br>We obtained understanding of the process and methodology applied to estimating the provisions for litigations related to loans originally granted in CHF.<br><br>We obtained a detailed overview of the litigation claims against the Bank for loans denominated in CHF and the analytics of the provisions recognised for these cases. We reconciled this information to the information provided in the financial statements and to the information received from external law firms.<br><br>As a part of our testing of the management's estimate, we obtained an independent overview and opinion pertaining to the Bank's litigation cases from the external law firms and we assessed the amount of provisions for reasonableness by comparing provisions made with the external law firms' opinion and available public information in order to challenge the key assumptions made by management.<br><br>We have tested the calculation of the provisions for litigation claims for mathematical accuracy.<br><br>We have assessed the disclosures related to these litigation provisions in the financial statements with respect to their adequacy and compliance with the requirements of the statutory accounting regulations for banks in the Republic of Croatia. |

## Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the statutory accounting regulations for banks in the Republic of Croatia as defined in Note 1 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 to cease operations, or has no realistic alternative but to do so.

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

## Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 high 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 taken on the basis of these 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 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor’s report to the related disclosures in the 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 independent auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Appointment

We were first appointed as auditors of the Bank on 6 March 2019. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 18 June 2020, representing a total period of uninterrupted engagement appointment of 2 years.

### Forms in accordance with regulatory requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18), "Decision"), the Management Board of the Bank prepared the forms according to Croatian National Bank requirements for the period from 1 January 2020 to 31 December 2020 presented in Appendix 1, entitled the "Statement of financial position (Balance sheet)" and note "Off-balance sheet items" as at 31 December 2020, "Income statement", "Statement of comprehensive income", "Statement of changes in shareholders' equity" and "Cash flow statement" for the year then ended (the "Forms"), together with information to reconcile the Forms to the Bank's financial statements. The Bank's management is responsible for the preparation of these forms and information on reconciliation and they do not represent an integral part of these audited financial statements, but contain information required by the Decision. The financial information in the forms is derived from the Bank's audited financial statements prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia as presented in Appendix 2 and adjusted for the purposes of the Decision.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
10 March 2021

### Responsibility for the financial statements

Pursuant to the currently effective Accounting Act the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with the statutory accounting regulations for banks in the Republic of Croatia, as defined in financial statements, note 1, which give a true and fair view of the financial position and results of the Bank for the period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

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

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

The Management Board is responsible for the submission to the Supervisory Board of their annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Meeting of Shareholders for adoption.

The Management Board is also responsible for the preparation and content of the Management report, in accordance with the Croatian Accounting Act.

The financial statements were authorised by the Management Board on 26 February 2021 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of Sberbank d.d.:

| Csaba Soós | Igor Repin | Roberto Bitunjac |
|---|---|---|
| Chairman of the Management Board | Member of the Management Board | Member of the Management Board |

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2020**
*(All amounts in HRK thousands unless otherwise stated)*

| | Note | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash reserves and balances with the Croatian National Bank | 5 | 1,900,090 | 2,521,120 |
| Placements with and loans to other banks | 6 | 972,182 | 769,895 |
| Financial assets at fair value through profit or loss | 8 | 159,941 | 221,736 |
| Loans and advances to customers | 7 | 6,997,768 | 6,481,403 |
| Financial assets at fair value through other comprehensive income | 9 | 770,685 | 790,526 |
| Other assets | 11 | 21,601 | 26,144 |
| Property and equipment | 10 | 119,718 | 132,488 |
| Intangible assets | 10 | 87,040 | 62,455 |
| Deferred tax assets | 28 | 28,742 | 40,664 |
| **Total assets** | | **11,057,767** | **11,046,431** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Deposits from banks | 12 | 638,235 | 1,145,472 |
| Financial liabilities at fair value through profit or loss | 16 | 2,456 | 2,292 |
| Deposits from customers | 13 | 8,009,916 | 7,638,881 |
| Other borrowings | 14 | 739,266 | 587,352 |
| Other liabilities | 18 | 209.878 | 215,018 |
| Provision for liabilities and charges | 17 | 78,260 | 46,539 |
| Subordinated liabilities | 15 | 203,640 | 201,106 |
| **Total liabilities** | | **9,881,651** | **9,836,660** |
| **EQUITY** | | | |
| Share capital | 29 | 615,623 | 615,623 |
| Share premium | 29 | 915,045 | 915,045 |
| Accumulated losses | | (389,693) | (354,032) |
| Fair value reserve | 30 | 14,830 | 12,824 |
| Other reserves | 29 | 20,311 | 20,311 |
| **Total equity** | | **1,176,116** | **1,209,771** |
| **Total liabilities and equity** | | **11,057,767** | **11,046,431** |

Accounting policies and other notes on pages that follow are an integral part of these financial statements.

SBERBANK D.D., Zagreb

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2020**
*(All amounts in HRK thousands unless otherwise stated)*

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Income statement** | | | |
| Interest income | 19 | 330,365 | 342,007 |
| Interest expense | 20 | (62,330) | (71,581) |
| **Net interest income** | | **268,035** | **270,426** |
| Fee and commission income | 21 | 81,908 | 88,029 |
| Fee and commission expense | 21 | (24,865) | (24,627) |
| **Net fee and commission income** | | **57,043** | **63,402** |
| Net gains and losses on financial instruments at fair value through profit or loss, result from foreign exchange trading and translation of monetary assets and liabilities | 22 | (12,274) | 35,254 |
| Net gains and losses from financial assets at FVOCI/investment securities | 23 | 442 | 103 |
| Other operating income | 24 | 3,784 | 13,280 |
| Other operating expense | 24 | - | (177) |
| **Net trading and other income** | | **(8,048)** | **48,460** |
| **Operating income** | | **317,030** | **382,288** |
| Administrative expenses | 25 | (123,314) | (125,410) |
| Personnel expenses | 26 | (100,308) | (103,482) |
| Impairment losses and provisions | 27 | (117,587) | (44,300) |
| **(Loss)/profit before tax** | | **(24,179)** | **109,096** |
| Income tax | 28 | (11,482) | (22,206) |
| **(Loss)/profit for the year** | | **(35,661)** | **86,890** |
| **Other comprehensive income for the year, net of income tax** | | | |
| Net change in fair value of FVOCI financial assets (that will be reclassified to P&L), net of deferred tax | 30 | 2,006 | 270 |
| **Total comprehensive (loss)/income for the year** | | **(33,655)** | **87,160** |

Accounting policies and other notes on pages that follow are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2020

*(All amounts in HRK thousands unless otherwise stated)*

| | Share capital | Share premium | Other reserves (Note 29) Legal reserves | Other reserves created in accordance with the Statute | Total other reserves | Fair value reserves | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **615,623** | **915,045** | **6,513** | **13,798** | **20,311** | **12,554** | **(440,922)** | **1,122,611** |
| **Total comprehensive income for the year** | | | | | | | | |
| ***Profit for the year*** | - | - | - | - | - | - | *86,890* | *86,890* |
| ***Other comprehensive income*** | | | | | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | | | | | |
| *Gains and losses on change in fair value of FVOCI financial assets, net of amounts realised (Note 30)* | - | - | - | - | - | *788* | - | *788* |
| *Net changes in allowance for expected credit losses of debt instrument at FVOCI* | - | - | - | - | - | *(459)* | - | *(459)* |
| *Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised (Note 30)* | - | - | - | - | - | *(59)* | - | *(59)* |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **270** | **86,890** | **87,160** |
| **Balance at 31 December 2019** | **615,623** | **915,045** | **6,513** | **13,798** | ***20,311*** | **12,824** | ***(354,032)*** | **1,209,771** |
| **Balance at 1 January 2020** | **615,623** | **915,045** | **6,513** | **13,798** | ***20,311*** | **12,824** | ***(354,032)*** | **1,209,771** |
| **Total comprehensive income for the year** | | | | | | | | |
| ***Loss for the year*** | - | - | - | - | - | - | *(35,661)* | *(35,661)* |
| ***Other comprehensive income*** | | | | | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | | | | | |
| *Gains and losses on change in fair value of FVOCI financial assets, net of amounts realised (Note 30)* | - | - | - | - | - | *2,426* | - | *2,426* |
| *Net changes in allowance for expected credit losses of debt instrument at FVOCI* | - | - | - | - | - | *20* | - | *20* |
| *Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised (Note 30)* | - | - | - | - | - | *(440)* | - | *(440)* |
| **Total comprehensive income/(loss)** | **-** | **-** | **-** | **-** | **-** | **2,006** | **(35,661)** | **(33,655)** |
| **Balance at 31 December 2020** | **615,623** | **915,045** | **6,513** | **13,798** | ***20,311*** | **14,830** | ***(389,693)*** | **1,176,116** |

Accounting policies and other notes on pages that follow are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2020
(*All amounts in HRK thousands unless otherwise stated)*

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before tax | | (24.179) | 109.096 |
| *Adjustment for:* | | | |
| Realised (gains) from sale FVOCI debt securities | 23 | (442) | (103) |
| Depreciation and amortization | 25 | 35.553 | 35.601 |
| Net foreign exchange (gains) from translation | 22 | (11.073) | (1.933) |
| Impairment losses and provisions of loans and advances to customers | 27 | 117.587 | 44.300 |
| Net trading (gains)/loss from trading securities and derivative financial instruments | 22 | 7.500 | (14.229) |
| Net (gain)/loss of financial instruments at fair value through profit or loss | 22 | 26.757 | (8.354) |
| Impairment of repossessed assets | | - | (1.214) |
| **Operating result before changes in operating assets and liabilities** | | **151.703** | **163.164** |
| *Changes in operating assets and liabilities:* | | | |
| Net (increase)/decrease in obligatory reserve with the Croatian National Bank | 5 | 189.753 | (139.868) |
| Net (increase)/decrease in loans and advances to customers | | (516.365) | (559.015) |
| Net (increase) in placements with loans to other banks with maturity above three months | | 2.898 | 1.694 |
| Net decrease/(increase) in other assets | 11 | 4.545 | (3.252) |
| Net increase/(decrease) in deposits from banks | 12 | (507.237) | 311.260 |
| Net increase/(decrease) in deposits from customers | 13 | 371.035 | 824.598 |
| Net (decrease)/increase in other liabilities | 18 | (76.563) | 18.941 |
| Net (increase)/decrease of non trading assters mandatory at fair value through profit or loss | | - | (86.682) |
| Net (increase)/decrease of financial assets at fair value through profit or loss | 8 | 36.505 | (29.658) |
| **Net cash (outflow)/ inflow from operating activities** | | **(343.726)** | **501.182** |
| **Cash flow from investing activities** | | | |
| Purchase of property and equipment and intangible assets | 10 | (45.596) | (25.182) |
| Purchases of FVOCI securities | | (201.286) | (332.495) |
| Proceeds on disposals of FVOCI securities | | 223.553 | 77.326 |
| **Net cash (outflow)/inflow from investing activities** | | **(23.329)** | **(280.351)** |
| **Cash flow from financing activities** | | | |
| Lease payments | 18 | (13.776) | (13.862) |
| Increase of subordinated liabilities | 15 | 2.534 | 52.674 |
| Increase in borrowings | 14 | 151.914 | 15.008 |
| **Net cash inflow from financing activities** | | **140.672** | **53.820** |
| **Cash and cash equivalents at the beginning of the year** | 32 | **2.625.922** | **2.354.660** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(226.383)** | **274.651** |
| Effect of foreign exchange differences on cash and cash equivalents | 22 | 292 | (3.389) |
| **Cash and cash equivalents at the end of the year** | 32 | **2.399.831** | **2.625.922** |
| **Operating cash flows from interest** | | | |
| *Interest received* | | *346.009* | *346.272* |
| *Interest paid* | | *(62.145)* | *(64.476)* |

Accounting policies and other notes on pages that follow are an integral part of these financial statements.

## NOTE 1 – GENERAL INFORMATION AND BASIS OF PREPARATION

Sberbank d.d., Zagreb ("the Bank") is a joint stock company founded in the Republic of Croatia and registered at the Commercial Court in Zagreb on February 1997. The Bank's headquarters are in Zagreb, Varšavska 9. Since foundation and until January 18, 2013, the Bank's official name was Volksbank d.d. and the Bank was a member of Volksbank Austria Group. On January 18, 2013 the name was changed to Sberbank d.d.

Until end of January 2012 the Bank's majority shareholder was Volksbank International AG, Vienna ("VBI") and the ultimate parent was Österreichische Volksbanken Aktiengesellschaft, Vienna ("VBAG"), a joint stock company, incorporated and domiciled in Austria. In February 2012, VBI was acquired by Sberbank of Russia, open joint stock company, incorporated and domiciled in Russian Federation.

On February 15th, 2012 Volksbank International acquired shares of Volksbank d.d. from remaining shareholders and became the sole shareholder of the Bank with 100% shares.

On November 1st, 2012 Volksbank International AG changed the name to Sberbank Europe AG.

On 31 December 2020 and 2019 the Bank's only shareholder is Sberbank Europe AG, Vienna and the ultimate parent is Sberbank of Russia, open joint stock company, incorporated and domiciled in Russian Federation whose principal shareholder is the Ministry of Finance of Russian Federation. Disclosures are made in Note 37 for significant transactions with Sberbank of Russia related parties. There are no transactions with Russian state-controlled entities and government bodies.

### a) Accounting framework

The financial statements have been prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia. In the Republic of Croatia, the Bank's operations are defined by the Credit Institutions Act.

The statutory accounting requirements for banks in the Republic of Croatia are based on the International Financial Reporting standards as adopted in the EU ("the IFRS") as stipulated in the Accounting Act and in accordance with the CNB's banking regulations, however, there are certain additional CNB's requirements such as: (1) interest income recognition on off balance accounts on individually significant items in stage 3 which are not fully impaired, and which satisfy regulatory defined past due criteria; (2) CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognized in accordance with IFRS and (3) The CNB sets minimum provisions for legal disputes filed against the Bank in the amount of 1% of the total amount of the legal dispute in the event that the total amount of the legal dispute exceeds 0.1% of the Bank's assets according to the audited financial statements of the previous year.

In addition to that, prior to 31 December 2020 the CNB required banks to recognise expected credit losses for financial assets in stages 1 and 2 at a minimum of 0.8% of the gross exposure.

## NOTE 1 – GENERAL INFORMATION AND BASIS OF PREPARATION (CONTINUED)

### a) Accounting framework (continued)

The additional CNB's requirements and minimum ECL threshold referred to above did not have a material impact on the reporting entity at 31 December 2020 and for the year ended 31 December 2020. The Bank's balance sheet and balance sheet items as at 31 December 2020, as well as the statement of comprehensive income for the year ended 31 December 2020, are materially aligned with International Financial Reporting Standards, in terms of presentation and disclosure, as well as in terms of recognition and measurement.

The principal accounting policies applied in the preparation of these financial statements are presented below. When a specific accounting policy is aligned with the accounting requirements of the International Financial Reporting Standards, reference may be made to individual standards when setting out the Bank's accounting policies. Unless otherwise stated, these references are to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable as at 31 December 2020.

### b) Basis of measurement

The financial statements are prepared on the fair value basis for financial assets at fair value through profit or loss and Fair value through Other comprehensive Income (FVOCI) financial assets, except for those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

### c) Use of estimates and judgements

In preparing the financial statements, management has made judgements, 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the results of which form the basis for making judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.
Information about judgements made by management in the application of applicable standards that have significant effect on the financial statements, and information about estimates for which there is a significant risk that they will result in a material adjustment within the next financial year are discussed in Note 4.

## NOTE 1 – GENERAL INFORMATION AND BASIS OF PREPARATION (CONTINUED)

### d) Functional and presentation currency

The financial statements are presented in Croatian kuna (HRK), which is the Bank's functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated). As at 31 December 2020 the exchange rates used for translation were HRK 7.536898 to EUR 1 (31 December 2019: HRK 7.442580 to EUR 1).

The accounting policies have been consistently applied to all the periods presented in these financial statements.

### e) COVID-19 pandemic impact on operations and result

The existence of novel coronavirus (COVID-19) was confirmed in early 2020, causing global pandemic, with pervasive impact on economic activity and banks operations.

**Moratorium and payment holidays**
Moratorium and stand still on loans and credit card obligations, as part of COVID related measures, negatively affected interest income as well and operations of the Bank. High liquidity on the market and postponed investments also drove interest rates decrease and shorter tenor of prolongations, hence lowered interest income. Bank realized 1% share of moratorium in legal entities segment or the amount of EUR 46.2 million as of December 31st 2020. In Private individual segment, total share of clients in moratorium amounts EUR 3.9 million or 0.4% share of the portfolio. The Bank calculated modification effects arising from contractual modifications impacted by moratorium and payment holidays under COVID-19 and concluded that total amount of effects is immaterial for the Bank. On the other hand there was no derecognition of financial assets relating to COVID-19 contractual modifications.

**ECL**
Pandemic led to decrease of asset quality and increase of risk cost, mainly in Retail segment.
Risk provisions were significantly higher due to COVID-19 crisis impact (EUR 2.8 million as estimated). As a consequence of COVID 19, the Bank adjusted its IFRS9 PDs further following a conservative approach and taking into consideration that the more severe scenario was advised to be considered as the main scenario. To that end, coverage for the loan loss provision increased for the performing loans. As a consequence of COVID 19, the Bank decided to adjust IFRS9 PDs further following a conservative approach coving the uncertainties related to COVID-19 pandemic. To that end, adjustments to the IFRS9 models have been implemented throughout the changes in the statistical models as well as the introductory of severe stress scenarios. In respect to the staging criteria, Stage transfer 1 to 2 under Covid-19 (Collective assessment flag) was performed based on the individual assessment of clients on single client level, including the assessment for the clients from high risk industries, mainly on corporate clients. For moratorium clients, SICR trigger was additionally strengthened and set to 5 notches rating downgrade.

## NOTE 1 – GENERAL INFORMATION AND BASIS OF PREPARATION (CONTINUED)

### e) COVID-19 pandemic impact on operations and result (continued)

**Impairment of financial instruments**
The highest negative influence was recorded in Net gains. Financial assets, namely participation in Fortenova group, were negatively revalued due to specific risk premium and COVID-19 impact on business (EUR 3.8 million). Also, pandemic situation had negative impact on fx trading and bonds. The trading activities segment in 2020 were characterised by a significant increase in volatility on financial markets as a result of the start of the COVID-19 pandemic. During the second half of 2020, under the positive influence of the suspended lockdown, the tourist season and the continuous FX and bond redemption auctions of the Croatian National Bank, the domestic market stabilized and a positive result in all trading segments was achieved, which however is significantly lower than in 2019, especially in the bond trading segment.

**Significant accounting judgements, assumptions and estimates**
Bank’s financial statements contain judgements, assumptions and estimates. The most significant uses of judgements, assumptions and estimates are described in the notes listed below:

- Taxes on income and deferred tax assets
- SPPI assessement of financial instruments
- Business model assessment of financial instruments
- Fair value of financial instruments
- Impairment of financial instruments
- Provisions

The COVID-19 pandemic increased the level of uncertainty, which introduced certain measures from governments and regulators that are likely to affect Bank’s financial performance and position. All negative effects that could be reasonable estimated were recognised in year 2020. Bank will continue to closely monitor the development of the COVID-19 situation and will continue recognising effects if necessary according to the development stage.

## NOTE 2 – ACCOUNTING STANDARDS

### Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Bank:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

### New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Bank has not early adopted.

- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023).These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. Amendment is not endorsed by te European Union yet. The Bank doesn't expect the impact of the amendments on its financial statements.

## NOTE 2 – ACCOUNTING STANDARDS (CONTINUED)

### New Accounting Pronouncements (continued)

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas which are relevant to the Bank's operations:

  - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Unless otherwise described above, the new standards and interpretations are either not relevant or not expected to affect significantly the Bank's financial statements.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES

### Interest income and interest expense

Interest income and expense are accrued at the effective interest rate of the asset or liability by using the rate that discounts estimated future cash flows to net present value over the life of the underlying contract, or an applicable floating rate (as defined in IFRS 9 – Financial instruments). Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest is recognised in the profit or loss for all interest bearing financial instruments, including those measured at amortised cost and at fair value (either through profit or loss or directly in equity), and is disclosed as interest income or interest expense.

For instruments that are measured at amortized cost, the interest is calculated by using an effective interest rate on the gross carrying amount of the instrument, except for instruments for which through subsequent measurement the value has been reduced, for which the interest is calculated by applying the effective interest rate on the net carrying amount of the instrument.

Loan origination fees net of direct expenses are also included in the calculation of effective yield.

### Fee & commission income and expenses

Fee and commission income comprise mainly fees receivable from customers for foreign exchange and payment transactions and other services provided by the Bank. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the service provided by the Bank, unless they have been included in the effective interest rate calculation. Fee and commission expense comprise mainly fees payable to customers for domestic and foreign payments and other services provided to the Bank. Fee and commission expense is recognised over time on a straight line basis as the services are received, when the Bank simultaneously receives and consumes the service provided to the Bank, unless they are integral to the effective interest rate calculation.

### Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities

This category includes spreads earned from foreign exchange trading, realised and unrealised gains and losses from trading debt securities, and from derivative financial instruments, and also includes net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency.

### Net gains and losses on securities acquired for investment purposes

This category includes realized gains and losses from the sale of equity and debt securities at fair value through other comprehensive income.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Dividend income

Dividend income on equity securities is recognised in the profit or loss when the right to receive the dividend is established.

### Operating expenses

The position includes staff-related expenses such as salaries, taxes, social insurance and staff compensation expenses. Other administrative expenses are: costs of materials and other costs, service costs, costs of company car usage and costs of other means of transport, business travel expenses, entertainment costs, advertising, propaganda and official clothing costs.

Other costs include: deposit insurance premium, expenses from value adjustments and amortization of tangible and intangible assets, taxes, contributions and membership fees from income, expenses for fines for violations, carrying value of disposed and confiscated property, material and other expenses from previous years, costs of sending and receiving foreign cash, expenses from the sale of property.Depreciation is calculated monthly by the linear method, by applying annual rates to the cost value or valuation to be written off over their estimated useful lives.

### Transactions in foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling 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 ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into HRK at the foreign exchange rates ruling 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 retranslated.

The changes in the fair value of financial securities denominated in foreign currencies measured at FVOCI are divided between the exchange rate differences arising from changes in the amortized cost of the securities and the other changes in the net carrying amount of the securities.

The translation differences are recognised in the profit or loss as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Corporate income tax

The corporate income tax is based on the taxable profit for the year and consists of the current tax and the deferred tax. The tax is recognized in the P&L, except in the part relating to items recognized directly in equity and reserves which is recognized in equity and reserves. Current tax represents the expected tax liability calculated on the taxable profit for the year, in line with the tax rates applicable at balance sheet date, as well as any adjustments to the tax liabilities from previous periods.

As different interpretations of the tax regulations are possible, the amounts reported in the financial statements can ultimately change, depending on the Tax Administration's decision.

The amount of the deferred tax is calculated using the balance sheet liability method, taking into account the provisional differences between the carrying amounts of the assets and liabilities used for financial reporting purposes and the amount used for taxation purposes. Deferred tax assets and liabilities are measured by applying the tax rates that are expected to be applied to the taxable profit in the years when these provisional differences are expected to be realized or settled, based on the rates that were effective or essentially valid on balance sheet date.

The measurement of the deferred tax assets and liabilities shows the tax consequences that would arise from the manner in which the entity on balance sheet date expects to collect or settle the carrying amount of the assets and liabilities.

The deferred tax assets and liabilities are not discounted and are classified as long-term assets and/or liabilities in the balance sheet. Deferred tax assets are recognized to the extent that it is probable that a taxable profit will be generated sufficient for its use. On each balance sheet date, the Bank estimates the unrecognized potential deferred tax assets, as well as the carrying amount of the recognized deferred tax assets.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments

***Classification of financial assets***

The Bank has classified its financial instruments into the following categories:

1. Assets measured at amortized cost (AC)
2. Assets measured at fair value through other comprehensive income (FVOCI)
3. Assets measured at fair value through profit or loss (FVPL)

The decision to classify a category of financial assets is made on the basis of:

- the business model of managing the financial asset
- the characteristics of the contracted cash flow

Financial assets classified into the above categories are:

- debt instruments
- equity instruments
- derivative instruments.

### Repossessed assets

Repossession is generally used to take over the real estate that was used as collateral in a loan transaction, from a debtor that has failed to fulfil contracted obligations or from third party, which is the mortgage issuer. The assets are initially recognised at their fair value when acquired and included in premises and equipment and are subsequently remeasured at the lower of its carrying amount and fair value less costs to sell.

### Loan commitments

The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Financial guarantees

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

### Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee’s beneficiary. These fees are recognised within fee and commission income in profit or loss.

### Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in the registers, instruments in the process of collection, current accounts held with the central bank, placements to other banks and T-bills with a maturity under 3 months from the date of acquisition.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Business models***

The business model refers to how the Bank manages its assets to generate cash flows. There are 3 ways in which cash flows can be generated and they also define 3 possible business models:

1. by collecting the contracted cash flow - the "hold to collect" business model
2. by collecting the contracted cash flow and selling financial assets - the "hold and sell" business model
3. by selling financial assets - the "sell" business model

The business models are defined by the senior management, by taking into account the realistically possible scenarios.
The business models are not defined for each individual instrument; instead, the instruments are consolidated by the manner they are managed, in the sense of achieving a specific business goal. It is also possible that the bank has several business models for the same type of financial instruments. When defining the business models at a specific assessment date, the bank takes into account all the facts as well as the historical facts of how the cash flows were collected.
The facts that the Bank takes into account are:

a. how to evaluate the success of a business model and of the financial asset held under this business model and how the senior (top) management is reported thereof;
b. the risks that affect the success of the business model (and the assets held under this business model), and in particular the way these risks are managed, and
c. the manner of paying the remuneration to the management staff

*Characteristics of contracted cash flows*

In addition to the determination of a business model, for the classification of the financial asset and the measurement method, the characteristics of the contracted cash flows are also important. This is tested on the basis of the SPPI test (solely payments of principal and interest on the principal amount outstanding). This test answers the question whether the contractual cash flows reflect the payment of principal and interest on the outstanding principal amount.
The principal is the fair value of the financial asset at initial recognition.
The interest represents consideration for the time value of the money, the credit risk associated with the outstanding principal over a given period of time and other basic risks and credit costs (e.g. liquidity risk and administrative costs), as well as the profit margin.
The bank assesses whether the contractual cash flows are only the payment of the principal and interest payments on the outstanding principal amount in the currency in which the financial asset is denominated. The contractual provisions introducing exposure to risks or volatility of the contractual cash flows that are not related to the underlying contract lead to the fact that the contractual cash flows cannot be considered the payment of the principal and interest payments on the outstanding principal amount only.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Classification of debt instruments***

Debt instruments are classified into categories based on the business model and the characteristics of the contracted cash flows, i.e. the fact whether the contractual cash flows reflect only the payment of principal and interest on the outstanding principal amount (SPPI).

Debt instruments are measured at amortized cost if they meet the following two conditions cumulatively:

- the instrument is managed within business model whose purpose is to collect cash flows;
- the contractual cash flows of the instrument reflect only the collection of the principal and interest (thus passing the SPPI test).

Debt instruments are measured by other comprehensive income if they meet the following two conditions cumulatively:

- the instrument is managed within business model whose purpose is to collect cash flows and sell financial assets;
- the contractual cash flows of the instrument reflect only the collection of the principal and interest (thus passing the SPPI test).

All other debt instruments are measured at fair value through profit or loss.

***Classification of equity instruments***

The Bank measures equity instruments at their fair value through profit or loss, with the exception of the equity instruments not held for trading by the Bank and that were initially recognized at fair value through other comprehensive income.

***Classification of derivative instruments***

The Bank measures derivative instruments at fair value through profit or loss.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Measurement of financial assets

#### *Recognition and de-recognition*

Each purchase and sale of financial assets at fair value through profit or loss and at fair value through other comprehensive income are recognized on trading date, i.e. the date on which the Bank commits to purchase or sell the instrument. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to the borrower or received fromthe lender (settlement date).

The bank derecognises the financial instruments (fully or in part) when the rights to receive cash flows from the financial instrument have expired or when the contractual rights over such financial asset are lost. This occurs when the Bank substantially transfers all the significant risks and ownership rights to another business entity or when these rights have been realised, delivered or have expired.

The bank derecognises the financial liabilities only when they cease to exist, i.e. when they are fulfilled, canceled or expired. If the terms of the financial liability are changed, the bank will de-recognize the financial liability and immediately recognize the new financial liability with the new terms.

The realized gains and losses from the sale of financial instruments are calculated using the FIFO method.

#### *Initial measurement*

Financial instruments are **initially recognized** at fair value that, in the case of financial assets not measured at fair value through profit or loss, increases or decreases for the transaction costs that can be attributed directly to the acquisition or issue of the financial asset.

#### *Subsequent measurement*

Financial instruments are subsequently measured in 3 ways:

a. at amortized cost;
b. at fair value through other comprehensive income, or
c. at fair value through profit or loss.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Measurement of financial assets (continued)

#### *Measurement at amortized cost*

Measurement of assets at amortized cost means that the assets are measured at an effective interest rate, i.e. that the interest income is calculated by applying the effective interest rate to the amortized cost of the financial assets.

#### *Measurement at fair value*

Fair value is the price that would have been achieved by selling an asset or would have been paid for the transfer of a liability at an arm's length principle transaction between the market participants at measurement date. The fair value of financial instruments is determined on the basis of the price quoted on the market on balance sheet date, without any reduction for the transaction costs. If there is no active market for a financial instrument or if the fair value cannot be reliably measured by a market price (for any other reason), the fair value of an asset is determined by internal fair valuation models based on the present value of the future cash flows.
Equity securities that do not have a quoted market price and whose fair value cannot be measured reliably are valued at acqusition cost net of the value adjustment.

#### *Fair value hierarchy*

The Bank uses the following levels to determine the fair value of the financial instruments:

- Level 1: Valuation based on the actual prices of the financial instruments quoted on an active financial market,
- Level 2: Valuation based on models in which all the parameters that have a fair value impact on the market are visible, directly or indirectly,
- Level 3: Techniques where all data that significantly affects the established fair value are not based on determinable market data.

The Bank considers each financial instrument separately, to determine whether the financial instrument is quoted in an active market (or not).

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Gains and losses from subsequent measurement of the financial instruments

Gains and losses from a change in the fair value of financial asset at fair value through profit or loss are recognized directly in the profit and loss statement.

Gains and losses from a change in the fair value of financial asset at fair value through other comprehensive income are recognized directly within the other comprehensive income and are disclosed in the statement of changes in equity and reserves. Impairment losses, foreign exchange gains and losses, interest income and amortization of the premium or discount (by applying the effective interest rate method for financial assets at fair value through other comprehensive income) are recognized in the profit and loss. Dividend income is recognized in the profit and loss. Upon sale or any other form of de-recognition of the assets at fair value through other comprehensive income the cumulative gain or loss from the instrument is transferred into the profit and loss statement except for equity instrument at fair value through other comprehensive income .
Gains and losses arising from financial assets and financial liabilities carried at amortized cost are included in the profit and loss over the period of amortisation, by using the effective interest rate method. Gains and losses may also arise at de-recognition or impairment of the financial instrument and are recognized in the profit and loss statement.

***Modifications***

Any re-contracting or modification of the contractual cash flows of a financial asset is considered a modification.

We differentiate:
1. Significant modifications leading to de-recognition of a financial instrument
2. Modifications that are not significant and do not result in de-recognition of a financial instrument

Significant modifications result in de-recognition of an existing financial asset and subsequent recognition of the modified financial asset. This modified financial asset is considered a "new" financial asset. A financial instrument is derecognised when:
1. the contractual rights to the cash flows from the financial asset expire, or
2. the entity transfers the financial assets, i.e. transfers the risks and benefits from the financial asset and that transfer fulfills the requirements for de-recognition.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Modifications (continued)***

Modifications that are not significant do not result in de-recognition of a financial instrument, but for them it is required to re-calculate their gross carrying amount and recognize the gain or loss on the P&L resulting from the modification. The gain or loss arising from the modification is calculated as the difference between the gross carrying amount before and after the modification. The gross carrying amount is calculated as the present value of the modified cash flows using the original effective interest rate or, in the case of a modification of assets already impaired, at the credit-adjusted effective interest rate.

A significant modification of an impaired asset where after the modification the expected cash flows do not correspond to the newly contracted cash flows results in the de-recognition of the old instrument and the recognition of the new asset that is classified as POCI (purchased or originated credit - impaired financial asset) - an asset that is initially recognized as impaired and for which is not required at initial recognition to post value adjustments. In most of the cases, this relates to the distressed restructuring deals, where the initial assets are no longer recognized, but the borrower’s financial difficulties are still present and obvious when recognizing the new assets. POCI assets may also arise from the purchase of a financial asset that is impaired at purchase - the relevant credit risk at acquisition is very high and usually such assets are purchased at a large discount.

For POCI assets, the effective interest rate adjusted for credit risk needs to be calculated.

The effective interest rate adjusted for credit risk is the rate that accurately discounts the estimated future payments in cash or cash receipts during the expected life of the financial asset to the amortized cost of the financial asset acquired or financial assets created net of the credit losses. When calculating the effective interest rate adjusted for the credit risk, the Bank estimates the cash flows taking into account all the contractual terms of the financial asset (e.g. prepayment, prolongation, purchase and similar options) and the expected credit losses. The calculation includes all fees and amounts paid or received between the counterparties which are an integral part of the effective interest rate, the transaction costs and all other premiums or discounts.

Assets once classified as POCI assets always remain in this category.

### Individual financial instruments

***Debt securities***

Debt securities are classified as financial assets at fair value through other comprehensive income or as financial assets at fair value through profit or loss. Debt securities held by the bank in order to generate a short-term profit are classified at fair value through profit or loss.

***Loans and advances to customers***

Loans and advances to customers are classified as loans and receivables. Loans and advances are presented net of impairment provisions to reflect their estimated recoverable amounts.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Individual financial instruments (continued)

#### *Repo agreements*

The Bank enters into purchases and sales of securities under agreements to resell or repurchase substantially identical securities at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised in loans and receivables to either banks or customers. The receivables are presented as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the securities are reported as collateralised liabilities to either banks or customers.
The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

#### *Derivative financial instruments*

Derivative financial instruments include swap and forward foreign exchange contracts. These are classified as financial instruments at fair value through profit or loss. No derivative instruments are accounted for as hedging instruments.

Derivative financial instruments are initially recognised in the statement of financial position 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 notional amount of derivative financial instruments is initially recorded off balance sheet. The fair value is determined based on the quoted market price or, if more appropriate, based on discounted cash flow techniques.

#### *Investments in affiliates*

Investments in associates are stated at their cost less any impairment.

#### *Placements with other banks*

Placements with and loans to other banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

#### *Netting of financial instruments*

Financial assets and liabilities are netted and the net amount is reported in the statement of financial position, when there is a statutory right for reimbursing the recognized amounts and if there is an intent to report on a net basis or to realize the asset and settle the liability at the same time.

Income and expenses are accounted for on a net basis only when so allowed in the accounting rules, or for gains and losses arising from a group of similar transactions (such as trading activities).

**NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Value adjustment of financial assets**

The financial assets, other than those at fair value through P&L, are reviewed at each balance sheet date, to determine whether there are objective impairment indications. If there are such indications, their recoverable value is estimated.

The objective indications of impairment are the result of one or more events that occurred after initial recognition of the asset and which have an impact on the estimated future cash flows from financial assets that can be reliably estimated. The objective indications of impairment of financial assets include all the information available to the Bank related to the following events that cause an impairment:

- significant financial difficulties of the borrower;
- non-compliance with the underlying agreement, such as default or delay in the repayment of interest or principal;
- it is likely that the borrower will go bankrupt or is facing another type of financial restructuring; disappearance of an active market for the financial asset as a result of financial difficulties;
- reliable indicators are available that there is a measurable reduction in the estimated future cash flows from the group of financial assets as of the initial recognition of the asset, although the reduction can not yet be attributed to a particular financial asset within the group.

For all financial assets, other than those measured at fair value through P&L, the impairment is calculated. The procedure for determining the loss includes all the credit exposures (balance and off-balance sheet items).

Depending on the trends of the credit quality of a financial instrument from initial recognition, the financial instruments are classified into risk sub-groups:

- A-1: after initial recognition, the credit risk of a particular financial instrument has not increased considerably
- A-2: After initial recognition, the credit risk of a particular financial instrument has increased considerably
- B-1, 2 and 3: the borrower is in default
- C: the borrower is in default

The recoverable amount of a financial asset, other than the one measured at fair value through P&L, is calculated as the present value of the expected future cash flows discounted at the original effective interest rate of the instrument.

The impairment of the financial assets for the A-1 risk group (Stage 1) is defined on the basis of the 12m ECL (expected credit loss), and represents the calculation of the credit losses based on risk parameters covering a 12-month horizon.

The impairment of the financial assets for the A-2 risk group (Stage 2) is defined on the LECL basis until the maturity of the asset, and represents the calculation of the credit losses based on risk parameters over time until the maturity of the considered asset.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Value adjustment of financial assets (continued)

The impairment of the financial assets for the B and C risk groups (Stage 3) is also defined on the LECL basis until the maturity of the asset. The minimum amount of the loan loss in the B risk group is 2%, while in the C risk group the credit loss is 100% of the credit exposure.

Here we distinguish between ILLP and GLLP credit losses. The ILLP credit losses represent the loss provisions for individually significant exposures, where the Bank uses the discounted cash flow method (DCF). The GLLP credit losses represent group-based loss provisions, whereas the exposures are grouped on the basis of "homogeneous exposure groups". They are calculated on the basis of the relevant risk parameters that represent the cash flows based on historical data within a particular portfolio and taking into account the future trends that reflect the lifetime component of the impairment model used. The GLLP are re-calculated at each reporting date or when significant input risk parameters are changed.

The financial assets are shown net of impairment for recoverability. The credit losses are created for the carrying amount of the loans and advances to customers for which impairment is identified during a regular review of the residual value, in order to reduce them to their recoverable amount. The amount of the provisions represents the difference between the carrying amount and the recoverable amount which represents the present value of the expected cash flows, including the amounts that can be recovered from the collaterals and guarantees, discounted on the basis of the original effective interest rate on the loans. The expected cash flows for the portfolios of similar asset classes are estimated based on previous experiences and taking into account the creditworthiness of these customers and the delays in the repayment of the liabilities (regular and default interest).

The changes in the impairment provisions are recognized in the P&L.

When it becomes obvious that a loan is irrecoverable, when all the collection options are exhausted and the amount of the total loss is determined, the loan is written off directly. If subsequently the impairment loss is reduced and such a reduction can be objectively linked to the event that occurred after the write-off, the previously recognized impairment loss is cancelled in the P&L.

Further details on default definition, ECL measurement and criteria for identifying significant increase in credit risk and other credit risk definitions and measures are presented in note 34.2 Credit risk.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Non-financial assets

#### *Property & equipment*

Property and equipment are recognized in the balance sheet at their cost or assumed acquisition cost net of the accumulated depreciation and impairment losses.

The Bank recognizes as part of the carrying value of a property or equipment the cost of replacing parts of such an asset, when it is probable that the future economic benefit from such asset will flow to the bank and the cost of such an asset can be measured reliably. All other expenses related to repairs or maintenance costs are incurred at the time of their occurrence.

Depreciation is calculated using the linear method, so that the cost of the acquisition of the asset is written off during its estimated useful life, at the following annual rates:

| | % | |
|---|---|---|
| Buildings | 2.5 | |
| Computer equipment | 25.0 | |
| Leasehold improvements | 10.0 – 50.0 | or in the time period of the lease contract |
| Other tangible asset | 10.0 – 25.0 | |

No depreciation is calculated on land and assets under construction. The remaining value of the asset, the amortization method and useful life are reviewed and adjusted, if necessary, at each reporting date.

Gains and losses from the sale of assets are determined on the basis of a comparison of the sales price with the carrying amount and are included in the P&L.

#### *Intangible assets*

Intangible assets comprise mostly of computer software and licenses. They are reported at the cost of acquisition and activation, net of amortization and losses from impairment of the asset. Such asset is amortized using the linear method based on the expected useful life at the following annual rates:

| | % |
|---|---|
| Software | 20.0 |
| Licence | 20.0 |

The amortisation method and useful life are reviewed and adjusted (if needed) at each reporting date.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Non-financial assets (continued)

***Impairment of non-financial assets***

The recoverable amount of property and equipment and of intangible assets is their net selling value or value in use, whichever is higher. For the purposes of assessing the impairment of an asset, the individual asset categories are grouped up to the lowest level for which it is possible to determine the individually identifiable cash flows (cash-generating units). When estimating the value in use, the expected cash flows are reduced to their present value by using a discount rate before tax that reflects the current market estimate of the time value of money and the risks specific to each asset or cash-generating unit. The non-financial assets that have suffered impairment are subject to estimates for a possible impairment at each reporting date. The impairment loss is reversed, if there is a change in the estimates based on which the recoverable amount is determined to the extent that the carrying amount of the asset did not exceed the carrying amount that would be determined net of amortization, had the impairment loss not been recognized.

The Bank regularly conducts valuations of its tangible and intangible assets.

### Liabilities

The Bank's financial liabilities are measured at amortized cost, with the exception of the financial liabilities that are measured at fair value through P&L.

***Current accounts and deposits of banks***

This position includes FX current accounts of banks, at-sight deposits, term deposits and special roles of banks.

These positions are reported in the balance sheet in the contractually agreed amount. Liabilities in foreign currencies are denominated in kuna at the agreed exchange rate valid on balance sheet date.

The interest is included in the expenses in the time period in which they are generated.

***Loans received and subordinated liabilities***

Interest-bearing loans received and subordinated liabilities are initially recognized at fair value net of the related transaction costs. After initial recognition, the loans received are measured at amortized cost.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

***Current accounts and deposits of customers***

This position includes: at-sight deposits of customers, received term deposits, restricted deposits, borrowings and special roles of customers.

Restricted deposits represent deposits placed by companies for foreign payments that the Bank carries out for them for the purpose of opening letters of credit or buying foreign means of payment.

Liabilities are reported in the balance sheet in the contractually agreed amount stemming from business financial transactions. Any possible increase in the obligations in relation to the initial amounts may result from revalorisation and regular interest, if so agreed.

For the at-sight deposits, deposits received and loans the interest is included in the expenses in the time period in which they are generated.

**Other liabilities**

This position includes liabilities for personnel expenses, tax and contribution obligations, net profit distribution obligations, receivables of suppliers, obligations stemming from issued payment instruments, obligations arising from employee wage garnishments, advance payments received, receivables of authorized exchange offices and provisions for other current liabilities.

Expenses being payables of the current period which are payable in a future accounting period are reported as deferred payment of expenses as accruals.

Revenues from future periods charged in advance are reported as accruals as non-overdue income.

***Provisions for liabilities and charges***

Provisions are recognized when the Bank has a present obligation (statutory or contractual) as a result of past events when it is likely that the outflow of funds related to economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the liability can be established.

Provisions for liabilities and charges are maintained at a level estimated by the Bank to be sufficient to absorb any possible losses. The Bank’s management determines the sufficiency of the provisions based on an analysis of the individual positions, the current economic conditions, the risk characteristics of certain transaction categories, as well as other relevant factors.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### *Share capital and reserves*

Share capital is reported in HRK at nominal value. Amounts paid for the redemption of share capital, including the direct costs, are recognized as capital and reserves reductions and classified as own shares.

The operating result for the year is transferred to retained earnings. Dividends are recognized as a liability in the period when their payment is announced.

### *Assets managed on behalf of and for the account of third parties*

The Bank manages funds on behalf of and for the account of legal entities and PIs(Private Individuals). These funds are not part of the Bank's assets, but are part of the mandate balance sheet and are as such excluded from the balance sheet. For services rendered on behalf of and for the account of third parties the Bank charges a fee.

### *Off-balance sheet items, commitments and potential liabilities*

In the regular course of business, the Bank enters credit liabilities that are registered in the off-balance sheet records. These mainly include guarantees, letters of credit and non-utilized frame loan facilities. Such commitments-financial liabilities are recognized in the balance sheet of the Bank, if and when they become payable.

For the amounts of the loss that are specifically identified on the basis of guarantees, letters of credit and other commitments that are classified into risk groups in accordance with the regulations of the Croatian National Bank and internal regulations of the Bank provisions are allocated for potential losses at the expense of the relevant accounting period.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Bank makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Bank does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Bank is not obliged to provide any other post-employment benefits.

### Bonus plans

A liability for employee bonuses is recognized in provisions based on the Bank's formal plan and when past practice has created a valid expectation by the Management Board that they will receive a bonus and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are measured at the amounts expected to be paid when they are settled.

### Retirement allowances and jubilee awards

The obligation and costs of retirement benefits and jubilee awards are determined using a projected unit credit method which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Certain actuarial assumptions were made by the Management in this assessment.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Leases

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Bank. In the statement of financial postion, right-of-use assets are recognised within “Property and equipment”, and lease liabilities are recognised within “Other liabilities”.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Bank’s incremental borrowing rate.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

## NOTE 3 – SPECIFIC ACCOUNTING POLICIES (continued)

### Leases (continued)

Subsequently, the right-of-use assets,are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The right-of-use assets are amortized over the period of lease contract.

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

## NOTE 4 – ESTIMATES AND JUDGMENTS

The Bank 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 resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgements made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value are also described below.

### Impairment losses on loans and advances

The Bank reviews its loan portfolios as well as individual loans to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in income statement, the Bank makes judgements as to whether there is any observable data indicating that there is measurable decrease in the estimated future cash flows in loan portfolios or individual loans. This evidence may include observable data indicating that there has been a breach of contract, such as a default or delinquency in interest or principal payments. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment. Note that more details on impairment methodology on loans and advances, in line with IFRS 9 standard, is described in Note 34.2 Credit risk.

The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experiences.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 4 – ESTIMATES AND JUDGMENTS (continued)

### Impairment losses on loans and advances (continued)

The quality of the credit portfolio of the Bank and appropriateness of related bad debt provisions for loans and receivables are notably influenced by macroeconomic developments. Unexpected development of economic conditions, especially related to real estate market, cannot be excluded and could have significant impact on the required allowance for impairment of loans and receivables. Furthermore, there are uncertainties in relation to future outcomes and timings of legal actions initiated by the Bank in order to realise collections per non-performing loans and receivables.

A summary of impairment allowances on exposures to customers together with the gross value of individually impaired due loans and advances (based on forms prepared for CNB purposes which as of the date of issuance of these financial statements are unaudited) is presented below:

| | Note | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| Impairment allowance on loans and advances to customers | 7 (b) | 359,954 | 331,240 |
| Other impairment allowance | | 1,251 | 1,447 |
| Provisions for off-balance-sheet credit risk exposure | 17 | 13,553 | 7,708 |
| **Total impairment allowance and provisions** | | **374,758** | **340,395** |
| **Gross value of individually impaired due exposure** | | 355,523 | 299,633 |

Stage 2 impairment allowance is based on the credit losses expected to arise over the life of the asset (classified in risk sub-group A-2), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss as stage 1 (classified in sub-group A-1). The amount of impairment provisions as of 31 December 2020 estimated on a risk group A (sub-groups A1 and A2) amounted to HRK 160.5 million (2019: HRK 142.8 million) and it is calculated on the relevant on-balance-sheet and off-balance sheet exposures. At the end of 2020 the total of this stage 1 and stage 2 impairment amounted to 1,41% of gross exposure (end of 2019: 1.29%).

## NOTE 4 – ESTIMATES AND JUDGMENTS (continued)

### Provisions for litigation initiated against the Bank

The Bank recognises provisions for litigation initiated against the Bank, for which it is probable that there will be an outflow of resources to settle the claims and the amounts can be reliably estimated. The Bank creates provisions for law suits for non-converted loans in accordance with the Croatian National Bank Decision on the obligation to make provisions for litigations conducted against a credit institution, and allocated each individual law suit into the risk group in accordance with the CNB Decision, depending on the estimated litigation loss, expressed in percent and in absolute amount. Provisions are recognised on the level of individual lawsuits filed against the Bank and based on in-house legal assessment and professional legal advice by external law firms. Management estimated provision for non-converted loans taking into consideration publicly available information, court decisions and external law firm expert opinion. Having in mind, the current number of lawsuits initiated against the Bank and timeline between receiving lawsuits and reaching final verdict Bank concluded on the level of estimated provision.

The Management considers the current level of provisioning to be sufficient to settle the claims arising from the CHF loans related lawsuits.

If the number of non-converted loans lawsuits increased by 10% in comparison to current number of lawsuits initiated against the Bank, the level of provision would increase by HRK 0.6M taking into consideration currently expected probability of loss of those cases.

Further details for litigation for CHF loans initiated against the Bank can be found in note 17, note 27 and note 31 to the financial statements.

### Valuation of Fortenova instruments

Investments in Fortenova debt and equity instruments are measured at fair value using the valuation techniques. Open source macroeconomic and industry information was used in the valuation. DCF method was used to calculate the value of the core companies of Fortenova based on historical and planned physical and financial indicators based on the external sources and market data available. The Bank assessed techniques applied and concluded that are appropriate in the circumstances. Furthermore, the Bank concluded that sufficient data was available to measure fair value. Valuation is prepared maximising the use of relevant observable inputs and minimising the use of unobservable inputs in accordance with accounting framework.
The Bank performed WACC change sensitivity analysis and if WACC is decreased by 0,25% the Fair value of Fortenova instruments would increase by HRK 6.5 million while if WACC is increased by 0,25% the Fair value of Fortenova instruments would decrease by HRK 5.8 million.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 5 – CASH RESERVES AND BALANCES WITH THE CROATIAN NATIONAL BANK

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Cash in hand | 202,086 | 188,003 |
| **Total cash reserves** | **202,086** | **188,003** |
| Current accounts with the Croatian National Bank | 1,225,562 | 1,670,923 |
| Obligatory reserve in HRK | 472,984 | 662,954 |
| **Balances with the Croatian National Bank** | **1,698,546** | **2,333,877** |
| Impairment for current accounts and obligatory reserves | (542) | (760) |
| **Total balances with the Croatian National Bank** | **1,900,090** | **2,521,120** |

### a) Movement in impairment allowance on cash reserves and balances with the CNB

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| **Balance at 1 January** | 760 | 2,254 |
| *Reversal in impairment losses* | (218) | (1,494) |
| **Balance at 31 December** | **542** | **760** |

The CNB determines the requirement for banks to calculate an obligatory reserve, which is required to be deposited with the CNB and held in the form of other liquid receivables. The obligatory reserve requirement as at 31 December 2020 amounted to 9% (31 December 2019: 12%) of HRK and foreign currency deposits, borrowings and issued debt securities. Of the calculated foreign currency component of reserve requirement, 75% is included in calculated HRK component and executed in HRK.Remaining 25% is maintained by average daily balances at own foreign currency accounts (with S&P and Fitch rating AA- and Moody's rating Aa3 respectively), at own foreign currency account with CNB (min 2%) and cash in foreign currency. As at 31 December 2020 the percentage for allocating HRK component of reserve requirements is 70%, while for the foreign currency component it amounts to 0%.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 6 – PLACEMENTS WITH AND LOANS TO OTHER BANKS

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| **Current accounts with banks** | | |
| - denominated in foreign currency | 403,185 | 133,480 |
| - denominated in HRK | 14,583 | - |
| **Loans and time deposits with banks** | | |
| - denominated in foreign currency | 548,095 | 630,318 |
| - denominated in HRK | 200 | 1,786 |
| **Other receivables from banks** | 6,132 | 4,321 |
| **Impairment for placements with and loans to other banks** | (13) | (10) |
| **Total Placements with and loans to other banks** | **972,182** | **769,895** |

Placements with and loans to other banks include accrued interest in the amount of HRK 10 thousand (31 December 2019: HRK 101 thousand).

### a) Movement in impairment allowance on placements with and loans to other banks

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| **Balance at 1 January** | **10** | **1,504** |
| *Increase/(reversal) of impairment losses* | 3 | (10) |
| *Writte off* | - | (1,484) |
| **Balance at 31 December** | **13** | **10** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS

### Analysis by recipient

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Individuals and unincorporated businesses | **4,542,199** | **4,132,405** |
| - short term | 198,330 | 207,187 |
| - long term | 4,343,869 | 3,925,218 |
| Companies and similar organisations | **2,658,585** | **2,495,028** |
| - short term | 759,404 | 702,514 |
| - long term | 1,899,181 | 1,782,513 |
| Other | **156,938** | **185,210** |
| - short term | 13,584 | 537 |
| - long term | 143,354 | 184,673 |
| **Gross loans and advances to customers** | **7,357,722** | **6,812,643** |
| **Impairment allowance on loans and advances to customers** | **(359,954)** | **(331,240)** |
| **Net loans and advances to customers** | **6,997,768** | **6,481,403** |
| *Total impairment allowance as a percentage of gross loans and advances to customers* | *4.89%* | *4.86%* |

As at 31 December 2020 gross loans and advances to customers include accrued interest in the amount of HRK 50,835 thousand (31 December 2019: HRK 32,389 thousand) while deferred fees in the amount of HRK 15,404 thousand (31 December 2019: HRK 14,828 thousand) are deducted from the amount of gross loans and advances to customers.

Impairment allowance on loans and advances to customers includes impairment allowance on accrued interest on loans and advances to customers in the amount of HRK 10,058 thousand (31 December 2019: HRK 9,705 thousand).

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS (continued)

### a) Movement in impairment allowance on loans and advances to customers

| | 2020 | 2019 |
|---|---|---|
| **Balance at 1 January** | **331,240** | **693,958** |
| *Impairment losses on loans and advances to customers recognised in the income statement* | 87,147 | 23,071 |
| Amounts written off | (13,997) | (305,965) |
| Sold receivables | (52,901) | (89,294) |
| Foreign exchange and other differences | 8,465 | 9,470 |
| **Balance at 31 December** | **359,954** | **331,240** |

In 2020 and in 2019, sold receivables relate to impaired loans granted to individuals and corporate customers, which have been sold to external debt collection company and other entities.

***Breakdown of impairment allowance movements:***

| | Balance at 31st December 2019 | Provisions charged /reversals | Amounts written off and sold receivables | Foreign exchange and other differences | Balance at 31st December 2020 |
|---|---|---|---|---|---|
| **Stage 3** | | | | | |
| Corporate | (61,590) | 15,212 | 6,619 | (1,609) | (41,368) |
| Retail | (131,026) | (88,310) | 57,533 | (6,856) | (168,659) |
| | **(192,616)** | **(73,098)** | **64,152** | **(8,465)** | **(210,027)** |
| **Stage 1 and Stage 2** | | | | | |
| Corporate | (55,251) | (643) | - | - | (55,894) |
| Retail | (78,926) | (11,659) | - | - | (90,585) |
| | **(134,177)** | **(12,302)** | **-** | **-** | **(146,479)** |
| **Other** | **(4,447)** | **(1,747)** | **2,746** | **-** | **(3,448)** |
| **Total impairment allowance** | **(331,240)** | **(87,147)** | **66,898** | **(8,465)** | **(359,954)** |
| ***Note*** | ***7(b)*** | ***27*** | ***7 (b)*** | ***7 (b)*** | ***7 (b)*** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS (continued)

### b) Movement in impairment allowance on loans and advances to customers (continued)

### Breakdown of impairment allowance movements (continued):

| | Balance at 31st December 2018 | Provisions charged /reversals | Amounts written off and sold receivables | Foreign exchange and other differences | Balance at 31st December 2019 |
|---|---|---|---|---|---|
| **Stage 3** | | | | | |
| Corporate | (412,431) | 25,891 | 327,684 | (2,734) | (61,590) |
| Retail | (136,844) | (50,793) | 63,347 | (6,736) | (131,026) |
| | **(549,275)** | **(24,902)** | **391,031** | **(9,470)** | **(192,616)** |
| **Stage 1 and Stage 2** | | | | | |
| Corporate | (41,263) | (13,988) | - | - | (55,251) |
| Retail | (97,758) | 18,832 | - | - | (78,926) |
| | **(139,021)** | **4,844** | **-** | **-** | **(134,177)** |
| **Other** | **(5,662)** | **(3,013)** | **4,228** | **-** | **(4,447)** |
| **Total impairment allowance** | **(693,958)** | **(23,071)** | **395,259** | **(9,470)** | **(331,240)** |
| ***Note*** | ***7(b)*** | ***27*** | ***7 (b)*** | ***7 (b)*** | ***7 (b)*** |

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Impairment allowance as at 1 January 2020** | **(76,532)** | **(57,645)** | **(197,063)** | **-** | **(331,240)** |
| New assets originated or purchased | (27,784) | (6,719) | | - | **(34,503)** |
| Transfers to Stage 1 | (12,833) | 9,870 | 2,963 | - | - |
| Transfers to Stage 2 | 5,943 | (13,993) | 8,050 | - | - |
| Transfers to Stage 3 | 2,197 | 14,484 | (16,681) | - | - |
| Impairment (charges)/reversals | 27,904 | (11,372) | (74,799) | - | **(58,267)** |
| Assets derecognised or repaid | - | | (2,093) | - | **(2,093)** |
| Amounts written off | - | | 66,898 | - | **66,898** |
| Foreign exchange adjustment | - | | (749) | - | **(749)** |
| **Imapirment allowance as at 31 December 2020** | **(81,105)** | **(65,375)** | **(213,474)** | **-** | **(359,954)** |

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS (continued)

### b) Movement in impairment allowance on loans and advances to customers (continued)

***Breakdown of impairment allowance movements (continued):***

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Impairment allowance as at 1 January 2019** | **(80,426)** | **(58,595)** | **(554,937)** | **-** | **(693,958)** |
| New assets originated or purchased | (32,116) | (6,705) | - | - | (38,821) |
| Transfers to Stage 1 | (25,166) | 21,218 | 3,948 | - | - |
| Transfers to Stage 2 | 4,892 | (12,026) | 7,134 | - | - |
| Transfers to Stage 3 | 1,168 | 5,794 | (6,962) | - | - |
| Impairment (charges)/reversals | 55,116 | (7,331) | (45,427) | - | 2,358 |
| Assets derecognised or repaid | - | - | 4,302 | - | 4,302 |
| Amounts written off | - | - | 395,258 | - | 395,258 |
| Foreign exchange adjustment | - | - | (379) | - | (379) |
| **Imapirment allowance as at 31 December 2019** | **(76,532)** | **(57,645)** | **(197,063)** | **-** | **(331,240)** |

In 2020 Bank has written off HRK 66,898 thousand as the result of non-performing exposure sale process. In 2019 Bank has written off HRK 395,528 thosand which consist of HRK 195,731 thousand as the result of Agrokor settlement procedure, HRK 89,294 thousand as the result of non-performing exposure sale procesure and HRK 110,503 thousand as a result of non-recoverable exposures.

## NOTE 8 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Financial assets held for trading** | | |
| Republic of Croatia government bonds, listed | 96,037 | 133,012 |
| Derivative financial instruments (Note 16) | 2,676 | 2,042 |
| | **98,713** | **135,054** |
| **Non-trading financial assets** | | |
| Equity instruments | 12,245 | 17,096 |
| Debt securities | 48,983 | 69,586 |
| | **61,228** | **86,682** |
| **Total** | **159,941** | **221,736** |

Non-trading financial assets relate to investment in Fortenova group.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 9 – FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### a) Analysis by security type

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Debt securities** | | |
| Republic of Croatia government bonds, listed | 668,619 | 790,385 |
| Foreign government bonds,listed | 101,925 | |
| | **770,544** | **790,385** |
| **Equity securities** | | |
| Other equity securities, unlisted | **141** | **141** |
| | **141** | **141** |
| | **770,685** | **790,526** |

As at 31 December 2020 financial assets at fair value through other comprehensive income include accrued interest in the amount of HRK 6,974 thousand (31 December 2019: HRK 9,615 thousand). Impairment allowance of FVOCI financial assets in 2020 in amount of HRK 696 thousand (31 December 2019: HRK 676 thousand)

### b) Securities pledged as collateral for borrowing with financial insurance

| Carrying amounts of matching borrowing (Note 14) | | Securities pledged as collateral | |
|---|---|---|---|
| 31 December 2020 | | | |
| | *Ministry of Finance* | | *Maturity date* |
| | HRRHMFO217A8 | 84,993 | 9 November 2022 |
| | HRRHMFO23BA4 | 4,178 | 27 November 2023 |
| | HRRHMFO23BA4 | 68,932 | 9 November 2022 |
| | HRRHMFO253A3 | 32,821 | 18 March 2025 |
| | HRRHMFO23BA4 | 42,822 | 13 December 2023 |
| | XS1713462668 | 62,197 | 18 March 2025 |
| | XS1843434876 | 95,524 | 18 March 2025 |
| **343,972** | | **391,467** | |
| 31 December 2019 | | | |
| | *Ministry of Finance* | | *Maturity date* |
| | HRRHMFO203E0 | 71,005 | 9 November 2022 |
| | HRRHMFO203E0 | 25,055 | 18 February 2020 |
| | HRRHMFO203A8 | 5,170 | 18 February 2020 |
| | HRRHMFO217A8 | 28,894 | 24 November 2020 |
| | HRRHMFO217A8 | 86,893 | 9 November 2022 |
| | HRRHMFO227E9 | 9,098 | 28 May 2020 |
| | HRRHMFO23BA4 | 45,504 | 13 December 2023 |
| **253,991** | | **271,619** | |

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 10 – PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

### a) Property and equipment

| | Property and equipment | | | | | Right-of-use asset | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | Buildings | Computer equipment | Furniture | Leasehold improvements | Assets acquired but not brought into use | Buildings | Computer equipment | Transport | **Total** |
| **Cost** | | | | | | | | | |
| At 1 January 2020 | **14,367** | **58,487** | **10,163** | **40,619** | **6,635** | **91,493** | **116** | **1,624** | **223,504** |
| Additions | - | - | - | - | 10,886 | 23,337 | - | 814 | 35,037 |
| Disposals/write offs | - | (64) | - | - | - | (27,183) | (6) | (199) | (27,452) |
| Transfers | 23 | 7,683 | 62 | 1,169 | (8,937) | - | - | - | - |
| **At 31 December 2020** | **14,390** | **66,106** | **10,225** | **41,788** | **8,584** | **87,647** | **110** | **2,239** | **231,089** |
| **Accumulated depreciation** | | | | | | | | | |
| At 1 January 2020 | **(4,946)** | **(41,918)** | **(6,303)** | **(26,761)** | **-** | **(10,618)** | **(33)** | **(437)** | **(91,016)** |
| Charge for the year | (480) | (8,563) | (795) | (3,663) | - | (11,517) | (29) | (468) | (25,515) |
| Disposals/write offs | | 64 | - | - | - | 5,741 | 6 | 199 | 6,010 |
| **At 31 December 2020** | **(5,426)** | **(50,417)** | **(7,098)** | **(30,424)** | **-** | **(16,394)** | **(56)** | **(706)** | **(110,521)** |
| **Impairment of the year** | (312) | (205) | - | (333) | | | | | **(850)** |
| **Carrying value** | | | | | | | | | |
| At 1 January 2020 | **9,421** | **16,569** | **3,860** | **13,858** | **6,635** | **80,875** | **83** | **1,187** | **132,488** |
| **At 31 December 2020** | **8,652** | **15,484** | **3,127** | **11,031** | **8,584** | **71,253** | **54** | **1,533** | **119,718** |

Purchase cost of assets in use that were 100% depreciated and amortised at the end of 2020 amounted to HRK 62,2 million (end of 2019: HRK 47,0 million). Assets acquired but not brought into use within intangible assets relate to software under development and purchase of licenses.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 10 – PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

### a) Property and equipment (continued)

| | **Property and equipment** | | | | | **Right-of-use asset** | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | Buildings | Computer equipment | Furniture | Leasehold improvements | Assets acquired but not brought into use | Buildings | Computer equipment | Transport | **Total** |
| **Cost** | | | | | | | | | |
| At 1 January 2019 | **15,042** | **52,451** | **10,177** | **39,491** | **5,392** | **-** | **-** | **-** | **122,553** |
| Impact of IFRS 16 adoption | - | - | - | - | - | 89,397 | 207 | 1,125 | 90,729 |
| Additions | - | - | - | - | 9,324 | 11,763 | (91) | 518 | 21,514 |
| Disposals/write offs | (696) | (663) | (229) | (18) | - | (9,667) | | (19) | (11,292) |
| Transfers | 21 | 6,699 | 215 | 1,146 | (8,081) | - | - | - | - |
| **At 31 December 2019** | **14,367** | **58,487** | **10,163** | **40,619** | **6,635** | **91,493** | **116** | **1,624** | **223,504** |
| **Accumulated depreciation** | | | | | | | | | |
| At 1 January 2019 | **(5,108)** | **(33,824)** | **(5,790)** | **(23,337)** | **-** | - | - | - | **(68,059)** |
| Charge for the year | (479) | (8,752) | (741) | (3,442) | - | (11,684) | (33) | (456) | (25,587) |
| Disposals/write offs | 641 | 658 | 228 | 18 | - | 1,066 | - | 19 | 2,630 |
| **At 31 December 2019** | **(4,946)** | **(41,918)** | **(6,303)** | **(26,761)** | **-** | **(10,618)** | **(33)** | **(437)** | **(91,016)** |
| | | | | | | | | | |
| **Carrying value** | | | | | | | | | |
| At 1 January 2019 | 9,934 | 18,627 | 4,387 | 16,154 | 5,392 | - | - | - | 53,887 |
| **At 31 December 2019** | **9,421** | **16,569** | **3,860** | **13,857** | **6,635** | **80,875** | **83** | **1,187** | **132,488** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 10 – PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

### b) Intangible assets

**2020**

| **Cost** | Software,licences and other intangible assets | Assets acquired but not brought into use | **Total** |
|---|---|---|---|
| At 1 January 2020 | **119,186** | **27,704** | **146,890** |
| Additions | - | 34,999 | 34,999 |
| Transfers | 10,921 | (10,921) | - |
| **At 31 December 2020** | **130,107** | **51,782** | **181,889** |
| **Accumulated depreciation** | | | |
| At 1 January 2020 | **(84,435)** | **-** | **(84,435)** |
| Charge for the year | (10,038) | - | (10,038) |
| **At 31 December 2020** | **(94,473)** | **-** | **(94,473)** |
| **Impairment of the year** | (86) | (290) | (376) |
| **Carrying value** | | | |
| At 1 January 2020 | **34,751** | **27,704** | **62,455** |
| **At 31 December 2020** | **35,548** | **51,492** | **87,040** |

**2019**

| **Cost** | Software,licences and other intangible assets | Assets acquired but not brought into use | **Total** |
|---|---|---|---|
| At 1 January 2019 | **102,335** | **28,697** | **131,032** |
| Additions | - | 15,858 | 15,858 |
| Transfers | 16,851 | (16,851) | - |
| **At 31 December 2019** | **119,186** | **27,704** | **146,890** |
| **Accumulated depreciation** | | | |
| At 1 January 2019 | **(74,421)** | - | **(74,421)** |
| Charge for the year | (10,014) | - | (10,014) |
| **At 31 December 2019** | **(84,435)** | **-** | **(84,435)** |
| **Carrying value** | | | |
| At 1 January 2019 | 27,914 | 28,697 | 56,612 |
| **At 31 December 2019** | **34,750** | **27,704** | **62,455** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 11 – OTHER ASSETS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Blocked assets until court's decision | 7,258 | 6,920 |
| Assets acquired in lieu of uncollected receivables | 6,796 | 6,796 |
| Prepaid expense | 4,116 | 4,451 |
| Receivables for advance payments | 3,028 | 2,369 |
| Assets from foreign exchange transactions between banks | 274 | 519 |
| Other assets | 694 | 5,655 |
| | **22,166** | **26,710** |
| Impairment allowance on assets acquired in lieu of uncollected receivables | (565) | (565) |
| | **21,601** | **26,145** |

## NOTE 12 – DEPOSITS FROM BANKS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Demand deposits** | | |
| - denominated in HRK | 28,380 | 14,727 |
| - denominated in foreign currency | 3,631 | 1,836 |
| | **32,011** | **16,563** |
| **Time deposits** | | |
| - denominated in HRK | 100,014 | 120,051 |
| - denominated in foreign currency | 506,210 | 1,008,858 |
| | **606,224** | **1,128,909** |
| **Total deposits from banks** | **638,235** | **1,145,472** |

Deposits from banks include accrued interest in the amount of HRK 2,750 thousand (31 December 2019: HRK 4,152 thousand).

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 13 – DEPOSITS FROM CUSTOMERS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Current accounts and demand deposits** | | |
| Individuals and unincorporated businesses | 1,582,953 | 1,314,296 |
| Companies and similar organisations | 2,178,151 | 1,676,835 |
| Investment Funds | 16,664 | 64,946 |
| Government | 716 | 6,846 |
| Other | 31,920 | 84,673 |
| | **3,810,404** | **3,147,596** |
| **Time deposits** | | |
| Individuals and unincorporated businesses | 2,823,340 | 2,920,369 |
| Companies and similar organisations | 784,277 | 785,089 |
| Investment Funds | 501,166 | 459,769 |
| Other | 90,729 | 326,058 |
| | **4,199,512** | **4,491,285** |
| **Total deposits from customers** | **8,009,916** | **7,638,881** |

Deposits from customers include accrued interest in the amount of HRK 21,153 thousand (31 December 2019: HRK 23,214 thousand).

## NOTE 14 – BORROWINGS

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Foreign banks | | |
| -in foreign currency | - | 3,447 |
| HBOR borrowings | 395,294 | 329,914 |
| Croatian National Bank | 343,972 | 253,991 |
| | **739,266** | **587,352** |

Borrowings include accrued interest in the amount of HRK 7,138 thousand (31 December 2019: HRK 8,409 thousand).

As at 31 December 2020, there were 113 million HRK of available and not used facilities from Sberbank Europe AG (2019: 223milion HRK.)

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 14 – BORROWINGS (CONTINUED)

| | 1 January 2020 | Cash flow | Foreign exchange movement | 31 December 2020 |
|---|---|---|---|---|
| Short – term borrowings | 3,502 | - | - | 3,502 |
| Long – term borrowings | 583,850 | 152,574 | (660) | 735,764 |
| **Total borrowings** | **587,352** | **152,574** | **(660)** | **739,266** |

| | 1 January 2019 | Cash flow | Foreign exchange movement | 31 December 2019 |
|---|---|---|---|---|
| Short – term borrowings | 3,504 | (2) | - | 3,502 |
| Long – term borrowings | 568,840 | 15,012 | (2) | 583,850 |
| **Total borrowings** | **572,344** | **15,010** | **(2)** | **587,352** |

## NOTE 15 – SUBORDINATED LIABILITES

In 2020 the Bank received no subordinated loans.

In 2019 the Bank received one unsecured subordinated loan from SBEU, Vienna with amount of EUR 7 million. The principal with interest rate 3,31% per annum +3m EURIBOR is repayable in 2029. This liability is subordinated to all other liabilities of the Bank.

| | 1 January 2020 | Cash flow | Foreign exchange movement | 31 December 2020 |
|---|---|---|---|---|
| Short – term liabilities | - | - | - | - |
| Long – term liabilities | 201,106 | 5,099 | (2,565) | 203,640 |
| **Total liabilities** | **201,106** | **5,099** | **(2,565)** | **203,640** |

| | 1 January 2019 | Cash flow | Foreign exchange movement | 31 December 2019 |
|---|---|---|---|---|
| Short – term liabilities | - | - | - | - |
| Long – term liabilities | 148,432 | 53,237 | (563) | 201,106 |
| **Total liabilities** | **148,432** | **53,237** | **(563)** | **201,106** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 16 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Derivative financial instruments (Note 8) | 2,456 | 2,292 |

The Bank uses over the counter ("OTC") currency forwards and embedded currency options. Currency forwards represent future commitments to purchase foreign and domestic currency.

Neither of these instruments qualifies for hedge accounting in accordance with IFRS 9.

The notional amounts and fair values of derivative instruments held are as set out below:

| | **Notional amount 31 December 2020** | | **Notional amount 31 December 2019** | | **Fair values 31 December 2020** | | **Fair values 31 December 2019** | |
|---|---|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Derivatives held for trading** | | | | | | | | |
| Currency forwards | 1,224,582 | 1,224,075 | 2,390,178 | 2,391,210 | 2,676 | 2,456 | 2,042 | 2,292 |
| **Fair value of derivatives** | | | | | **2,676** | **2,456** | **2,042** | **2,292** |

At year end the Bank had outstanding currency forwards.

## NOTE 17 – PROVISIONS FOR LIABILITIES AND CHARGES

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Provisions for off-balance-sheet credit risk exposure | | |
| Off-balance-sheet provisions | 13,553 | 7,708 |
| | ***13,553*** | ***7,708*** |
| Provisions for legal cases *(i)* | 63,583 | 37,707 |
| Provisions for CHF conversion | 1,124 | 1,124 |
| **Total** | **78,260** | **46,539** |

*i* – For more details on provision for legal cases see Note 4.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 17 – PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

### a) Changes in provisions for off-balance-sheet credit risk exposure except performance guarantees

| | 2020 | 2019 |
|---|---|---|
| **Balance at 1 January** | **5,638** | **11,883** |
| Charge to income statement (Note 27) | 7,447 | 3,086 |
| Provisions utilised during the year (Note 27) | (1,790) | (9,333) |
| Foreign exchange differences | - | 2 |
| **Balance at 31 December** | **11,295** | **5,638** |

### b) Changes in provisions for performance guarantees

| | 2020 | 2019 |
|---|---|---|
| **Balance at 31 December** | **2,070** | **1,756** |
| Charge to income statement (Note 27) | 4,317 | 1,890 |
| Provisions utilised during the year (Note 27) | (4,129) | (1,576) |
| **Balance at 31 December** | **2,258** | **2,070** |

### c) Changes in provisions for court cases

| | 2020 | 2019 |
|---|---|---|
| **Balance at 1 January** | **37,707** | **15,899** |
| Charge to income statement (Note 27) | 30,771 | 21,808 |
| Decrease in provisions for court cases settlements | (4,895) | - |
| **Balance at 31 December** | **63,583** | **37,707** |

### d) Changes in provisions for CHF conversions

| | 2020 | 2019 |
|---|---|---|
| **Balance at 1 January** | **1,124** | **1,307** |
| Decrease in provisions (Note 27) | - | (181) |
| **Balance at 31 December** | **1,124** | **1,124** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 18 – OTHER LIABILITIES

| **a) Other liabilities** | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Lease liabilities | 75,037 | 83,497 |
| Liabilities to customers for loan prepayments | 40,264 | 51,932 |
| Trade payables (domestic and foreign) | 18,850 | 9,382 |
| Accruals for administrative expenses | 18,180 | 22,604 |
| Liabilities for pledged escrow accounts from customers | 14,491 | 5,520 |
| Accruals for purchased intangible assets (invoice not yet received) | 10,428 | 9,661 |
| Salaries | 8,065 | 8,213 |
| Employee bonuses and retirement compensation | 4,991 | 9,076 |
| Other liabilities | 19,572 | 15,133 |
| | **209,878** | **215,018** |

| **b) Lease liabilities** | **2020** | **2019** |
|---|---|---|
| Short-term portion | 53 | 55 |
| Long-term portion | 74,984 | 83,442 |
| | **75,037** | **83,497** |

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 18 – OTHER LIABILITIES (CONTINUED)

### c) Debt reconciliation

Liabilities from financial instruments relate to deposits from banks and customers, other borowings and subordinated liabilities

| | Liabilities from financial isntruments | Lease liabilities | Total debt | Cash and cash equivalents | Net debt |
|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **(8,369,271)** | **(90,729)** | **(8,460,000)** | **2,354,660** | **(6,105,340)** |
| Cash flow | (1,142,090) | 13,862 | (1,128,228) | 271,262 | (856,966) |
| Interest accrued | (61,450) | (2,993) | (64,443) | - | (64,443) |
| New lease contracts | - | (3,637) | (3,637) | - | (3,637) |
| **Balance at 1 January 2020** | **(9,572,811)** | **(83,497)** | **(9,656,308)** | **2,625,922** | **(7,030,386)** |
| Cash flow | 37,290 | 13,776 | 51,066 | (226,092) | (175,026) |
| Interest accrued | (55,536) | (2,607) | (58,143) | - | (58,143) |
| New lease contracts | - | (2,709) | (2,709) | - | (2,709) |
| **Balance at 31 December 2020** | **(9,591,057)** | **(75,037)** | **(9,666,094)** | **2,399,830** | **(7,266,264)** |

## NOTE 19 – INTEREST INCOME

### a) Analysis by source

| | **2020** | **2019** |
|---|---|---|
| Individuals | 238,750 | 238,227 |
| Companies | 68,948 | 74,405 |
| Other | 21,922 | 24,288 |
| Banks | 745 | 5,087 |
| | **330,365** | **342,007** |

### b) Analysis by product

| | **2020** | **2019** |
|---|---|---|
| Loans and advances to customers | 320,679 | 326,260 |
| FVOCI debt securities | 8,941 | 10,660 |
| Loans and advances to banks | 745 | 5,087 |
| | **330,365** | **342,007** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 20 – INTEREST EXPENSE

### a) Analysis by recipient

| | 2020 | 2019 |
|---|---|---|
| Banks | 26,612 | 24,481 |
| Individuals | 20,654 | 32,374 |
| Companies | 4,849 | 5,684 |
| Other | 10,215 | 9,042 |
| | **62,330** | **71,581** |

### b) Analysis by product

| | 2020 | 2019 |
|---|---|---|
| Deposits | 49,016 | 58,862 |
| Borrowings | 6,918 | 7,749 |
| Subordinated liabilities | 6,396 | 4,970 |
| | **62,330** | **71,581** |

## NOTE 21 – FEE AND COMMISSION INCOME AND EXPENSE

| **a) Fee and commission income** | **2020** | **2019** |
|---|---|---|
| **Analysis by source** | | |
| Individuals | 53,209 | 55,436 |
| Corporate | 27,569 | 31,503 |
| Banks | 1,130 | 1,090 |
| | **81,908** | **88,029** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 21 – FEE AND COMMISSION INCOME AND EXPENSE (CONTINUED)

| | 2020 | 2019 |
|---|---|---|
| **Analysis by product** | | |
| Cash based payment transactions | 17,360 | 14,339 |
| Account maintenance fees | 13,884 | 10,764 |
| Non-cash-based payment transactions | 13,135 | 18,055 |
| Credit card - payment transaction fees | 12,121 | 12,199 |
| Insurance policies | 9,091 | 14,411 |
| Letters of credit, guarantees and unused loan facilities | 5,036 | 4,792 |
| Income from overdraft accounts | 3,674 | 2,623 |
| Sale of nvestment funds shares | 2,310 | 3,095 |
| Foreign payment transactions | 1,618 | 1,819 |
| Other fees and commissions | 3,679 | 5,932 |
| | **81,908** | **88,029** |

**b) Fee and commission expense**

| | 2020 | 2019 |
|---|---|---|
| **Analysis by recipient** | | |
| Banks | 14,018 | 13,806 |
| Corporate | 5,102 | 5,406 |
| Domestic payments service agency | 5,745 | 5,415 |
| | **24,865** | **24,627** |

| | 2020 | 2019 |
|---|---|---|
| **Analysis by product** | | |
| Domestic payment transactions | 9,596 | 8,966 |
| Credit cards | 6,913 | 6,113 |
| Foreign payment transactions | 4,141 | 2,574 |
| Credit risk protection | 212 | 2,640 |
| Other | 4,003 | 4,334 |
| | **24,865** | **24,627** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 22 - NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, RESULT FROM FOREIGN EXCHANGE TRADING AND TRANSLATION OF MONETARY ASSETS AND LIABILITIES

| | **2020** | **2019** |
|---|---|---|
| Foreign exchange spot trading | 11,201 | 7,349 |
| Net foreign exchange gains from translation of monetary assets and liabilities | 10,782 | 5,322 |
| Net trading (losses)/gains from currency derivatives | (8,376) | 5,459 |
| Net trading result debt securities | 876 | 8,770 |
| Net (losses)/gains from non-trading securities at fair value through profit or loss | (26,757) | 8,354 |
| | **(12,274)** | **35,254** |

## NOTE 23 - NET GAINS AND LOSSES FROM INVESTMENT SECURITIES

| | **2020** | **2019** |
|---|---|---|
| FVOCI debt securities - realised gain | 442 | 103 |
| | **442** | **103** |

## NOTE 24 – OTHER OPERATING INCOME AND EXPENSE

### a) Other operating income

| | **2020** | **2019** |
|---|---|---|
| Income from sale of repossessed assets | 55 | 1,391 |
| Income from affiliates | 433 | 429 |
| Other income | 3,298 | 11,460 |
| | **3,786** | **13,280** |

### b) Other operating expense

| | **2020** | **2019** |
|---|---|---|
| Expense from sale of repossessed assets | 2 | 177 |
| | **2** | **177** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 25 – ADMINISTRATIVE EXPENSES

| | **2020** | **2019** |
|---|---|---|
| Depreciation and amortisation (Note 10) | 35,553 | 35,601 |
| Electronic data processing costs (including consultancy and maintenance) | 24,042 | 20,808 |
| Savings deposit insurance expenses | 18,372 | 15,959 |
| Marketing and entertainment | 9,704 | 14,390 |
| Material and services | 7,306 | 7,666 |
| Other expenses for business premises | 6,916 | 6,740 |
| Professional fees | 4,620 | 11,035 |
| Operating lease rentals for business premises | 2,960 | 2,966 |
| Operating lease rentals for equipment and furniture | 191 | 295 |
| Other expenses | 13,650 | 9,950 |
| | **123,314** | **125,410** |

Professional fees include among others fee for audit services as well additional non-audit services provided by auditor to the Bank and which relates to quarterly reviews of reporting packages used for reporting to the ultimate owner of the Bank.

## NOTE 26 – PERSONNEL EXPENSES

| | **2020** | **2019** |
|---|---|---|
| Net salaries | 54,707 | 53,490 |
| Expenses for compulsory pension insurance | 16,265 | 15,691 |
| Expenses for compulsory health insurance | 13,999 | 13,596 |
| Taxes and surtaxes | 12,844 | 13,153 |
| Other personnel costs | 2,493 | 7,552 |
| | **100,308** | **103,482** |

The number of employees as at 31 December 2020 was 480 (31 December 2019: 484).

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 27 – IMPAIRMENT LOSSES AND PROVISIONS

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Charges** | | | |
| Loans and advances to customers | 7 (b) | 203,518 | 235,778 |
| Accrued interest | 7 (b) | 3,986 | 8,791 |
| Other assets | 7 (b) | 2,610 | 3,896 |
| | | ***210,114*** | ***248,465*** |
| Off-balance-sheet items | 17 (a) | 11,764 | 4,973 |
| Provisions for court cases | 17 (c) | 30,770 | 22,068 |
| Other impairment losses and provisions | | 8,870 | 12,295 |
| Provisions for FVOCI debt instruments | | 20 | - |
| | | **261,538** | **287,801** |
| **Reversals for collected amounts and other reversals** | | | |
| Loans and advances to customers | 7 (b) | (118,685) | (220,685) |
| Accrued interest | 7 (b) | (3,418) | (3,826) |
| Other assets | 7 (b) | (864) | (883) |
| | | ***(122,967)*** | ***(225,394)*** |
| Off-balance-sheet items | 17 (a) | (5,919) | (10,909) |
| Provisions for placements with banks | | (215) | 116 |
| Gains of written off placements | | (1,473) | (75) |
| Provisions for court cases | | (4,045) | (259) |
| Provisions for FVOCI debt instruments | | - | (459) |
| Other impairment losses and provisions | | (9,332) | (6,521) |
| | | **(143,951)** | **(243,501)** |
| **Impairment losses and provisions** | | **117,587** | **44,300** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 28 – INCOME TAX

### a) Income tax expense recognised in the income statement

| | **2020** | **2019** |
|---|---|---|
| Current income tax | - | - |
| Deferred income tax | 11,482 | 22,206 |
| **Income tax for the period** | **11,482** | **22,206** |

### b) Reconciliation of the accounting profit and tax as of 31 December 2020

| | **2020** | **2019** |
|---|---|---|
| **Accounting profit before tax** | **(24,179)** | **109,096** |
| Income tax | (4,352) | 19,637 |
| Effect of non-deductible expenses | 5,609 | 1,963 |
| Effect of non-taxable income | (71) | (96) |
| **Income tax at 18%** | **1,186** | **21,504** |
| Deffered tax asset write off for expired tax losses | 10,296 | 702 |
| **Total income tax expense** | **11,482** | **22,206** |
| **Effective income tax rate** | **(47,49)%** | **20,35%** |

As of 31 December 2020 the amount of deferred tax assets related to unused tax losses carried forward was 18,196 thousand HRK. The expiry date for the amount of 18,196 thousand HRK is end of 2022

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 28 – INCOME TAX (continued)

### c) Movement in deferred tax assets

The Bank recognises a deferred tax asset on temporarily tax disallowed provisions recognised in income statement in current and previous years. A deferred tax asset is also recognised on fees collected in previous years for which income tax was paid on a cash basis, but which are subject to deferral as a part of effective interest as well as related to unused tax losses carried forward. The movement on the deferred tax assets account is as follows:

| | Deferred tax on revaluation of FVOCI | Deferred tax on disallowed provisions | Deferred tax on loan origination fees | Unrealised loss on financial instruments and impairment of fixed assets | Deferred tax income (unused tax losses carried forward) | Total deferred tax assets/ (liabilities) |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **(2,755)** | **4,284** | **1,730** | **220** | **59,451** | **62,930** |
| Deferred tax increase credited / (utilisation charged) in income statement | - | 2,444 | (139) | 741 | (25,253) | (22,207) |
| Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised, recognised in other comprehensive income | (59) | - | - | - | - | (59) |
| **Balance at 31 December 2019** | **(2,814)** | **6,728** | **1,591** | **961** | **34,198** | **40,664** |
| Deferred tax increase credited / (utilisation charged) in income statement | | 618 | (38) | 3,940 | (16,002) | (11,482) |
| Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised, recognised in other comprehensive income | (440) | | | | | (440) |
| **Balance at 31 December 2020** | **(3,254)** | **7,346** | **1,553** | **4,901** | **18,196** | **28,742** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 29 – SHARE CAPITAL AND OTHER RESERVES

| **At 31 December 2020** | **Number of shares issued** | **Total share capital** |
|---|---|---|
| Ordinary registered shares at HRK 1,000 each | 615,623 | 615,623 |
| | | **615,623** |

| **At 31 December 2019** | **Number of shares issued** | **Total share capital** |
|---|---|---|
| Ordinary registered shares at HRK 1,000 each | 615,623 | 615,623 |
| | | **615,623** |

All issued shares have been subscribed and paid in. Each registered ordinary share carries a right to one vote per share.

The shareholders structure is as follows:

| | % of ownership |
|---|---|
| | **31 December 2020** |
| Sberbank Europe AG, Austria | 100.00 |
| | **100.00** |

| | % of ownership |
|---|---|
| | **31 December 2019** |
| Sberbank Europe AG, Austria | 100.00 |
| | **100.00** |

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 29 – SHARE CAPITAL AND OTHER RESERVES (continued)

### a) Regulatory capital

The rate of capital adequacy is calculated as the ratio between guarantee capital and the sum of credit-risk-weighted assets, exposure to market risks (currency risk) and operational risk and the estimated exposure of the open foreign exchange position to currency risk.

The regulatory capital and capital adequacy ratio according to CNB requirements are as follows:

| | **31 December 2020 (unaudited)** | **31 December 2019** |
|---|---|---|
| | **Basel III** | **Basel III** |
| *Tier 1 capital* | | |
| Share capital | 615,623 | 615,623 |
| Share premium | 915,045 | 915,045 |
| Retained earnings/(losses) – not including profit for the year | (354,032) | (440,922) |
| Net Profit/(Loss) for the year | (35,661) | 86,771 |
| Fair value reserves | 14,830 | 12,824 |
| Legal, statutory and other reserves | 20,311 | 20,311 |
| Deductions: | (115,642) | (106,774) |
| - Intangible assets (part of leasehold improvements presented above as fixed assets is included in this position in accordance with local regulatoray requirement) | (96,513) | (71,561) |
| - Deferred tax assets (which depend on future profitability and which do not arise from temporary differences) | (18,196) | (34,198) |
| - Value adjustments due to the requirements for prudent valuation | (933) | (1,015) |
| Other transitional adjustments (unrealised gains on FVOCI securities) | - | - |
| **Total qualifying Tier 1 capital** | **1,060,474** | **1,102,878** |
| *Subordinated liabilities included in regulatory capital (excluding interest)* | 188,274 | 200,827 |
| **Total qualifying Tier 2 capital** | **188,274** | **200,827** |
| **Total regulatory capital** | 1,248,748 | **1,303,705** |
| **Capital adequacy ratio according to CNB requirements** | | |
| **Risk weighted assets** | | |
| Total risk-weighted assets and other risk exposures | **7,022,436** | **6,564,032** |
| **Capital adequacy ratio** | **17,81** | **19,84** |

During 2019 and 2020 the was compliant with the Basel III regulatory framework.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 29 – SHARE CAPITAL AND OTHER RESERVES (continued)

### b) Other reserves

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Legal reserve | 6,513 | 6,513 |
| Other reserves created in accordance with the Statute | 13,798 | 13,798 |
| | **20,311** | **20,311** |

*Legal reserves*

Legal reserves represent accumulated transfers from retained earnings in accordance with the Croatian Companies Act, which requires a minimum of 5% of the Bank's net profit to be transferred to a non-distributable legal reserve until the reserve reaches 5% of the Bank's registered share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

*Other reserves created in accordance with the statute*

Other reserves represent accumulated transfers from retained earnings in accordance with the Statute of the Bank. These reserves are distributable following the approval by the shareholders in the General Assembly.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 30 – FAIR VALUE RESERVES

The fair value reserve represents unrealised gains less losses arising from a change in the fair value of FVOCI financial assets, net of deferred tax. When the financial assets classified as FVOCI is sold, collected or otherwise disposed of, the cumulative gain or loss recognised in fair value reserve within equity is transferred to income statement except for equity investments classified as FVOCI.

| | **2020** | **2019** |
|---|---|---|
| **Balance at 1 January** | **12,824** | **12,554** |
| *Gross fair value reserve* | *15,639* | *15,310* |
| *Deferred tax* | *(2,815)* | *(2,756)* |
| *Accumulated impairment* | - | - |
| Net gains/(losses) from change in fair value of FVOCI financial assets | 2,868 | 891 |
| Deferred tax (charge)/release on net losses from change in fair value of FVOCI financial assets | (520) | (78) |
| Net (charge) on disposal of FVOCI financial assets - transfer to income statement | (442) | (103) |
| Deferred tax gain on net gains transferred to income statement on disposal of FVOCI financial assets – transfer to income statement | 80 | 19 |
| Net impairment (charge) recognised in profit or loss | 20 | (459) |
| *Gross fair value reserve change* | *2,426* | *788* |
| *Deferred tax change* | *(440)* | *(59)* |
| *Impairment allowance change* | *20* | *(459)* |
| **Balance at 31 December** | **14,830** | **12,824** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 31 – COMMITMENTS AND CONTINGENCIES

### a) Off-balance-sheet exposure without performance guarantees

| **31 December 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Financial guarantees | 192,866 | 2,304 | 300 | **195,470** |
| Letters of credit | 12,875 | - | - | **12,875** |
| Undrawn commitments | 477,380 | 18,652 | 1,760 | **497,792** |
| | **683,121** | **20,956** | **2,060** | **706,137** |
| Less: | | | | |
| *Off-balance-sheet impairment allowance* | *9,471* | *991* | *834* | ***11,296*** |
| **Total provision (Note 17 (a))** | **9,471** | **991** | **834** | **11,296** |
| | **673,650** | **19,965** | **1,226** | **694,841** |

| **31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Financial guarantees | 218,845 | 3,152 | 300 | **222,297** |
| Letters of credit | 3,557 | - | - | **3,557** |
| Undrawn commitments | 235,297 | 6,158 | 1,036 | **242,491** |
| | **457,699** | **9,310** | **1,336** | **468,345** |
| Less: | | | | |
| *Off-balance-sheet impairment allowance* | *4,996* | *120* | *522* | ***5,638*** |
| **Total provision (Note 17 (a))** | **4,996** | **120** | **522** | **5,638** |
| | **452,703** | **9,190** | **814** | **462,707** |

### b) Off-balance-sheet exposure – performance guaratnees

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Performance guarantees | 200,198 | 138,869 |
| | **200,198** | **138,869** |
| Less: | | |
| *Off-balance-sheet impairment allowance* | *2,258* | *2,070* |
| **Total provision (Note 17 (a))** | **2,258** | **2,070** |
| | **197,940** | **136,799** |

## NOTE 31 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

### c) Legal proceedings

Legal proceedings have been filed against the Bank in a number of cases. For them, based on the advice of legal experts, provisions have been allocated in the financial reports. The "Potrošač" consumer protection association has filed in 2012 legal proceedings against a total of eight Croatian banks (including Sberbank d.d.), claiming that the consumers who in the period 2004 - 2008 have applied for CHF indexed loans: i) have not been adequately informed by the banks of all the risks associated with such loans, and ii) that the variable interest rate in these loan agreements was illegal. The court of first instance in Zagreb passed on July 4, 2013 the verdict in favour of the claimant "Potrošač". Based on the evidence presented by the Bank in the initial and in the appeal proceedings, the High Commercial Court fully rejected on 4 July 2014 the claim against Sberbank d.d. In the next and expected step, the "Potrošač" Association submitted on August 22, 2014 an application for a review of the verdict at the Supreme Court against eight Croatian banks (including Sberbank d.d.). Sberbank d.d. filed on September 5, 2014 its statement of defence to the Supreme Court. The Supreme Court rejected the review (appeal) on April 9, 2015, thus consequently all the ordinary and extraordinary legal remedies have been exhausted and all claims and accusations against Sberbank d.d. were fully discarded. The "Potrošač" Association then filed a constitutional complaint to the Constitutional Court of the Republic of Croatia against the verdict of the Supreme Court. On December 20, 2016 the Constitutional Court published the decision in the proceeding initiated by the "Potrošač" Association against the decision of the Supreme Court. The Constitutional Court partially accepted the lawsuit of the "Potrošač" Association, revoking the judgment of the Supreme Court. The proceeding was continued at the Supreme Court that on October 3, 2017 rendered a ruling that the previous decision of the High Commercial Court in this matter is revoked in part and that the case was returned to the High Commercial Court for a new decision. The High Commercial Court rendered its ruling (that Sberbank d.d. received on 20 July 2018) in favour of "Potrošač", thus in essence verified the decision of the Commercial Court of Zagreb (first level decision from year 2013) against all eight banks. The Bank filed an appeal against this judgment to the Supreme Court and also a constitutional claim with the Constitutional Court. In October 2018, the "Potrošač" Association filed an appeal against the costs of the proceedings (the Bank replied to that appeal in December 2018). This is related to the non-converted loans.

Concerning converted CHF loans, there were CHF consumer loans conversion in accordance and forced with the law conducted in 2015. All banks affected by the CHF conversion initiated Constitutional claim against the "Conversion Law" but it was rejected and Constitutional Court confirmed that "Conversion Law" was in line with the Constitution. In so called "Exemplary Proceeding" the Supreme Court in March 2020., on the legal question whether CHF loan conversion agreement is null and void in the case if in the original CHF loan CHF FX clause and variable interest rate are null and void took a stance that Conversion agreement is legally valid and produce legal effect even if in the original CHF loan CHF FX clause and variable interest rate are null and void. Having in mind that such legal opinion of the Supreme court and Constitutional Court decision are legally binding for all courts in the Republic of Croatia, it means that converted CHF loans are not eligible for law suits. The Bank received the decision of the Supreme Court based on which all appeals, including the one of SBHR, were rejected - the claimant succeeded in this proceeding, the relevant decision was received on 24.09.2019. The Bank then filed a constitutional claim against the decision of the Supreme Court on 23.10.2019. The decision of the Constitutional Court on the lawsuits of the banks was rendered on 03.02.2021 and all the appeals of the banks were rejected. The decision does not affect the current position of the Bank and the amount of the provisions. All disputes related to this decision are categorized in group C. As a consequence of this unfavourable decision, the number of new lawsuits from retail clients regarding CHF loans against Sberbank d.d. increased.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 31 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

### c) Legal proceedings (continued)

The Supreme Court released on March 10, 2020 its Decision in the so-called exemplary proceedings filed with respect to the legal validity of the CHF loan conversion agreements. The Supreme Court declared the conversion of the CHF loans valid and that the conversion agreements (including any annexes thereto) produced valid legal effects, regardless of the nullity of the provisions on the interest rate or currency clause in the initial CHF loan agreements.

This verdict can reduce pressure and significantly alleviate the Bank's position in the individual lawsuits currently pending on the account of the converted loans. In all other individual disputes not covered by this SC ruling, the positions of the parties remain unchanged. In 2020, the number of lawsuits against the Bank with respect to CHF loans has increased, as well as the number of the final decisions against the Bank. This increased number of lawsuits has resulted in higher amount of provisions for court proceedings.

## NOTE 32 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items with original maturity up to 3 months:

| | Note | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| Current accounts with the Croatian National Bank | 5 | 1,225,563 | 1,670,923 |
| Cash in hand | 5 | 202,086 | 188,003 |
| Placements with banks – original maturity up to 3 months | 6 | 972,182 | 766,996 |
| | | **2,399,831** | **2,625,922** |

Current accounts with the Croatian National Bank in Note 5 as of 31 December 2020 and 31 December 2019 include accrued interest.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 33 – MATURITY ANALYSIS

The amount of the total assets and liabilities is analysed according to the expected maturity.

**31 December 2020**

| **Assets** | **Up to 1 year** | **Over 1 year** | **No contractual maturity** | **Total** |
|---|---|---|---|---|
| Cash reserves and balances with the Croatian National Bank | 1,900,090 | - | - | 1,900,090 |
| Placements with and loans to other banks | 972,182 | - | - | 972,182 |
| Loans and advances to customers | 1,954,683 | 5,043,085 | - | 6,997,768 |
| Financial assets at fair value through profit or loss | 112,035 | 47,906 | - | 159,941 |
| FVOCI financial assets | 130,855 | 639,830 | - | 770,685 |
| Property and equipment | | - | 119,718 | 119,718 |
| Intangible assets | | - | 87,040 | 87,040 |
| Current tax assets | | - | - | - |
| Deferred tax assets | | 28,742 | - | 28,742 |
| Other assets | 15,370 | - | 6,231 | 21,601 |
| **Total assets** | **5,085,215** | **5,759,563** | **212,989** | **11,057,767** |
| | | | | |
| **Liabilities** | | | | |
| Deposits from banks | 638,235 | - | - | 638,235 |
| Deposits from customers | 7,280,899 | 729,017 | - | 8,009,916 |
| Borrowings | 74,083 | 665,183 | - | 739,266 |
| Subordinated liabilities | 144 | 203,496 | - | 203,640 |
| Financial liabilities at fair value through profit or loss | 2,456 | - | - | 2,456 |
| Provision for liabilities and charges | 10,933 | 67,327 | - | 78,260 |
| Other liabilities | 146,196 | 63,682 | - | 209,878 |
| **Total liabilities** | **8,152,946** | **1,728,705** | **-** | **9,881,651** |
| **Maturity gap** | **(3,067,731)** | **4,030,858** | **212,989** | **1,176,116** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 33 – MATURITY ANALYSIS (continued)

**31 December 2019**

| **Assets** | **Up to 1 year** | **Over 1 year** | **No contractual maturity** | **Total** |
|---|---|---|---|---|
| Cash reserves and balances with the Croatian National Bank | 2,521,120 | - | - | 2,521,120 |
| Placements with and loans to other banks | 769,895 | - | - | 769,895 |
| Loans and advances to customers | 1,647,916 | 4,833,487 | - | 6,481,403 |
| Financial assets at fair value through profit or loss | 153,351 | 68,385 | - | 221,736 |
| FVOCI financial assets | 127,602 | 662,924 | - | 790,526 |
| Property and equipment | - | - | 132,488 | 132,488 |
| Intangible assets | - | - | 62,455 | 62,455 |
| Current tax assets | - | - | - | - |
| Deferred tax assets | - | 40,664 | - | 40,664 |
| Other assets | 19,436 | - | 6,709 | 26,145 |
| **Total assets** | **5,239,320** | **5,605,460** | **201,651** | **11,046,431** |

| **Liabilities** | | | | |
|---|---|---|---|---|
| Deposits from banks | 1,145,472 | - | - | 1,145,472 |
| Deposits from customers | 6,728,224 | 910,657 | - | 7,638,881 |
| Borrowings | 126,228 | 461,124 | - | 587,352 |
| Subordinated liabilities | 156 | 200,950 | - | 201,106 |
| Financial liabilities at fair value through profit or loss | 2,292 | - | - | 2,292 |
| Provision for liabilities and charges | 8,077 | 38,462 | - | 46,539 |
| Other liabilities | 142,511 | 72,507 | - | 215,018 |
| **Total liabilities** | **8,152,960** | **1,683,700** | **-** | **9,836,660** |
| **Maturity gap** | **(2,913,640)** | **3,921,760** | **201,651** | **1,209,771** |

## NOTE 34 – RISK MANAGEMENT

### NOTE 34.1 – INTRODUCTION

This note provides details of the Bank's risk management system, defining:

- the risk management organizational structure,
- the Bank's risk exposure for major types of risk and
- the methods and processes implemented used for control of each type of risk

The major financial risks to which the Bank is exposed are credit risk, market risk, operational risk and liquidity risk.

**Risk management organizational structure**

An integrated system of risk management has been established throughout the Bank:

- **Supervisory Board** is responsible for monitoring overall risk position and giving the acceptance of the risk strategy and structure of internal capital adequacy assessment process to the Management Board.

- **Supervisory Board Risk Committee** advises the Supervisory Board on the Bank's overall current and future risk appetite and strategy and assists in overseeing the implementation of that strategy by senior management. The Management Board and Supervisory Board retain overall responsibility for risk management and monitoring.

- **Management Board** is responsible for setting the risk management principles and approving risk strategy and risk management policies.

- **Risk Committee** is responsible for monitoring and decision making in overall risk management within the policies approved by the Management board. Risk Committee supports the Chief risk officer and Management Board by providing comprehensive information about current and potential future risk exposures of the Bank as well as future risk strategy and performance, including determination of risk appetite and tolerance.

- **Asset and Liability Committee** is responsible for decision making in market risk management and liquidity risk management within the policies approved by the Management Board. In the area of risk management, the responsibility of Asset and liability committee is defining the guidelines and recommendations in market and liquidity risk management based on regular detailed analysis of the Bank's risk position.

- **Credit Committee** is responsible for decision making for all segments except citizens in loan and loss provisioning approval process within the defined authorities.

- **6-eyes committee** is responsible for decision making, within its own authorities, regarding the approval of new placements.

- **Distress Asset Committee** is responsible for decision making in regard with problematic and potentially problematic debts/assets.

## NOTE 34 – RISK MANAGEMENT

### NOTE 34.1 – INTRODUCTION (continued)

- **Retail Risk Management and Corporate Risk Management** are responsible for decision making within its own authorities and monitoring of creditworthiness of the clients and its risk position.

- **Restructuring and Collection** is responsible for managing and close monitoring of problematic placements.

- **Strategic Risk Management** units are responsible for developing and implementing tools for risk identification and measurement and prescribing risk procedures and policies determining the limits of risk levels acceptable to the Bank. These units are responsible for reporting on risk management to the Supervisory Board, Supervisory Board Risk Committee, Management Board, Asset and liability Committee, Risk Committee and Central National Bank.

- **Internal Audit** is responsible for regular auditing of risk management processes in the Bank.

- **All other units** in the Bank are responsible for risk exposure management as prescribed by the procedures and policies of Strategic Risk Management units and approved by the Management Board, and for implementation of the decisions and recommendations given by the Supervisory Board, Supervisory Board Risk Committee, Asset and Liability Committee, Risk Committee, Credit Committee and Distressed Assets Committee.

Organizational units Strategic Risk Management, Retail Risk Management, Corporate Risk Management, Restructuring and Collection are within the scope of responsibilities of Chief risk officer - member of the Management Board responsible for risk management.

Responsibilities of each department and committee in the Bank are determined based on the principles of clear separation of duties up to the Management Board level and maximum transparency.

## NOTE 34 – RISK MANAGEMENT (continued)

### NOTE 34.2 - CREDIT RISK

The Bank is subject to credit risk through its lending and investing activities.

The risk that counterparties might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good and acceptable credit rating, and when appropriate, obtains collateral.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure through loans and advances is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Bank is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued (Note 31 a – commitments and contingencies).

Exposure to credit risk is managed in accordance with the Bank's policies. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel authorised to approve them within the Bank. Any substantial increase in credit exposure is approved by authorised persons.

Credit risk assessment is continuously monitored and reported, thus enabling an early identification of impairment in the credit portfolio. Dedicated departments monitor changes in creditworthiness of single clients and review need for closer monitoring of the clients or possible impairment losses. Internal rating systems are continuously used in day-to-day business for the purpose of determining the customer's creditworthiness, as one of the criteria for making risk decisions and for the monitoring activities on portfolio level.

The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

**NOTE 34 – RISK MANAGEMENT (continued)**

**NOTE 34.2 - CREDIT RISK (continued)**

**RISK MEASUREMENT**

Expected credit loss measurement Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

New IFRS 9 models had been developed where for retail models the selected approach was to build models based on migration matrices approach and for non-retail to base models on adjusted IRB models.
Group decided on a centralized approach regarding the implementation of IFRS 9, what means that new models have been developed according to harmonized policies and process but based on the local countries data.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2,Stage 3 and POCI, as described below:

1) Stage 1 – Financial instruments with no significant increase in credit risk identified, for which 12-month expected credit losses are calculated (12m ECL);
2) Stage 2 - Financial instruments with a significant increase in credit risk, which are non-default and for which the expected credit losses are calculated for the entire lifetime (LECL);

   Criteria for classification in Stage 2:
   - Significant increase in credit risk (SICR)
   - Forbearance (FB) flag
   - Monitoring status:
   - DPD: 30 + (days)

## NOTE 34 – RISK MANAGEMENT (continued)

### NOTE 34.2 - CREDIT RISK (continued)

### RISK MEASUREMENT (continued)

If any of the above criteria are fulfilled, the asset should be classified Stage 2.

A significant increase in credit risk (SICR) is based on the values of the change rating threshold. The internal rating deterioration by 7 and higher notches (relative to the initial rating) is considered to be a SICR factor used in the process of defining the stage.

3) Stage 3 – Credit impaired financial instruments in default, for which the expected credit losses are calculated for the entire lifetime (LECL).
For legal entity clients, default status (Stage 3) is applied on the client level. If default indicator has occurred for an individual exposure, all client exposures are considered in the default. Activated default indicator implies default client and all its liabilities to the Bank gain rating 26.
For private individual clients, default status (Stage 3) is applied based on so-called pulling effect. If minimal 20% of the client's exposure is marked as default, the entire client will be marked as default with assigned rating of 26 and all his exposures will be marked as Stage 3. Otherwise, rating 1-25 will be assigned to the client, but particular exposures will be marked as Stage 3.
4) POCI assets - at initial recognition are not subject to the staging concept and the same ones are defined as POCI.

Credit risk measurement components

The credit risk exposure to a debtor can be divided into two components – the Expected Loss (EL), which should be covered by calculated risk costs, and the Unexpected Loss (UL), which is compensated by equity capital. The EL is the amount of exposure to a borrower that one can expect to lose over a 12-month period. The UL is calculated as the volatility of loss around the expected loss. The expected loss can be further divided into following three components:

$$EL = PD \times LGD \times EAD$$

These three components are defined as follows:

**Probability of Default** (PD) is dedicated to a particular borrower and is defined as the probability that the borrower will default within one year. Probability of default serves as an estimate of the probability that an exposure will record losses as stipulated by the loss given default within a pre-specified period of time. PD parameters are developed based on internal models (used assumptions of Markov's chains). Estimation is based on historical data collected. In order to initialize the IFRS 9 parameter estimation, Bank provided portfolio snapshots across a time frame of several years (minimum time frame is set at 3 years of data history), as dates for default events occurring in the portfolio snapshot timeframes.

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

## RISK MEASUREMENT (continued)

Usage of expert defined PD value is possible in situation where PD modelling results are skewed (too low or unreasonably high) due to lack (and insufficient) modelling data. In this case expertly defined value have to be approved by the RiCo and documented for audit trail. Expert setting has to incorporate benchmarking based on peer group and / or publicly available data. 12 month period in the future over the lifetime of a product.

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- CPI
- Retail Sales

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

PD validation and back-testing are performed on regular basis, once a year based on predefined schedule with deadlines and responsibilities.

- **Loss given Default** (LGD) represents an estimate of the actual losses that would be expected to occur on a defaulted loan as a percentage of the EAD at the time of default. SBHR does not consider that 100% of the amount outstanding as collateral can be seized or that recovery can be achieved through other revenues; the actual loss caused by a default therefore tends to be less than the Bank's total exposure to the borrower. Furthermore, LGD is formulated as a function of the collateral type used to secure an exposure and is based on internal models.

- **Exposure at Default** (EAD) is equal to the exposure that the Bank expects to have to the borrower at the time of default. It is determined using facility-specific measures, such as expected drawdown rates for committed loan lines and the expected mark-to-market for derivative contracts. EAD during the life of the instument is determined taking into account the expected changes in future periods, based on the repayment plans. For unused off-balance-sheet exposures, overall utilization (CCF of 100%) is assumed according to CNB expectations.

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Segments and grouping of homogeneous exposures

**Non-Retail segments**
In order to determine value adjustment on portfolio basis in Stage 1 and Stage 2 for Corporate, SME, Financial institutions (FI) and Sovereign segments, the Bank recognizes a homogenous group of clients depending on the rating class. Pursuant to the valid rating system, the Bank applies a corresponding percentage of probability of default (the so-called PD - probability of default) on every rating class. As the second parameter in the calculation of value adjustments on a portfolio basis depending on segment, the Bank recognizes the percentage of LGD - ("Loss Given Default") i.e - probability of loss in the case of acquiring the status of default.

**Retail segment (private individuals and micro clients)**
In order to determine value adjustment on a portfolio basis, in Stage 1 and Stage 2 for the Retail segment (private individuals and micro clients), the Bank recognizes a homogeneous group of clients depending on the days past due („time bucket"), and for each time bucket applies an appropriate percentage of probability of delay/default (the so-called PD - probability of default).
As the second parameter in the calculation of the allowance on a portfolio basis for Micro segment and Private individual segment, Bank recognizes LGD percentage ("Loss Given Default") and the probability of loss in the case of acquiring the status of default.

When assessing aggregate impairment for assets in Stage 3 or when calculating expected credit losses for assets in Stage 1 or 2, the exposures should be grouped on the basis of a ' homogeneous exposure group '.

Criteria for grouping which the Bank takes into account:
- PD is used for:
    - Segment-level Non-Retail clients (Corporate, SME, FI and Sovereign) and internal ratings-ratings (1-25)
    - Retail-Micro clients at DPD group level (buckets)
    - Retail-PI clients at product level and DPD group level (bucket)
- LGD assumptions:
    - Secured part of exposure calculated on the basis of the type of collateral for the Corporate, SME, PF, Retail-Micro and Retail-PI clients
    - Unsecured part of exposure calculated on the basis of product type for Retail-PI clients (as for PD), and segment-level for Non-Retail clients (Corporate and SME) and Retail-Micro
    - regulatory for the FIs and Sovereign segment

### Write offs

Exposures are written off either partially or fully when Bank has no reasonable expetations of recovery. Reasonable expectations of recovery are based on following indicators: status of collateral, status of enforcement procedure, status of debtor (for debtors in liquidation or bankruptcy pocess), number of days past due. If the amount to be written off is greater than the accumulated impairment, impairment is increased for this difference and then gross carrying amount is written off against loss allowance. Any subsequent recoveries are decreasing loss expense.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

## PORTFOLIO OVERVIEW – CREDIT RISK

**Maximum exposure to credit risk**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Current accounts with the Croatian National Bank and other banks | 5, 6 | 1,643,330 | 1,804,403 |
| Obligatory reserve with the Croatian National Bank | 5 | 472,442 | 662,194 |
| Loans to and receivables from banks | 6 | 554,414 | 636,415 |
| Financial assets at fair value through profit or loss | | | |
| - Debt securities | 8 | 145,020 | 202,598 |
| - Derivative financial instruments | 8 | 2,676 | 2,042 |
| Loans and advances to customers | 7 (a) | 6,997,768 | 6,481,405 |
| Fair value through other comprehensive income financial assets | 9 | 770,685 | 790,526 |
| **Total credit risk exposure relating to on-balance-sheet assets** | | **10,586,335** | **10,579,581** |

Credit risk exposure relating to off-balance-sheet items is as follows:

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Financial guarantees | 31 (a) | 195,470 | 222,297 |
| Performance guarantees | 31 (b) | 200,198 | 138,869 |
| Letters of credit | 31 (a) | 12,875 | 3,557 |
| Undrawn commitments | 31 (a) | 497,792 | 242,491 |
| **Total credit risk exposure relating to off-balance-sheet items** | | **906,335** | **607,214** |
| **Total credit risk exposure** | | **11,504,915** | **11,203,893** |

The above table represents the maximum direct credit risk exposure of the Bank as at 31 December 2020 and 31 December 2019, without taking into account any collateral held or other credit enhancements. For assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As presented above, 60.82% of the total maximum exposure is derived from loans and advances to customers (2019: 57.85 %), while 5.23% relates to loans and advances to banks (2019: 5.68 %).

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

## CONCENTRATION OF CREDIT RISK

Concentration of credit risk is being monitored by client/counterparty/group of related parties, by geographical region and industry sector.

### Concentration by client/counterparty

From the total amount of performing loans and advances and off balance towards companies in Corporate and SME segment (as defined in Corporate and SME Credit Policy and Risk Appetite Statement), the top 20 exposures account for 55,3 % and is in line with defined limit. The highest exposure to an individual company before taking into account the amount of collateral as of 31 December 2020 amounted to HRK 172.207 thousand (31 December 2019: HRK 165,888 thousand).

### Concentration by geographical region

The majority of the lending portfolio of the Bank is concentrated in the Republic of Croatia (98.94 % as of 31 December 2020) with the exception of banks. The portfolio is proportionally allocated through counties in accordance with their significance and contribution to the total economic growth of the state. Zagrebačka županija and Grad Zagreb is the most significant county and the share of this county in the lending portfolio of the Bank at the end of 2019 was 41.94% (end of 2019: 43.36 %).

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Concentration of credit risk

The Bank has a diversified lending portfolio that covers various industries, with the largest portion being with individuals, which represents 61.73 % (2019: 60.66 %) of the credit portfolio at the year end.

The risk concentration in economic sectors within the portfolio of client loans at gross amounts, before impairment losses, is as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| Individuals | 4,542,199 | 61.73% | 4,132,521 | 60.66% |
| Trade | 644,719 | 8.76% | 625,913 | 9.19% |
| Industry | 911,239 | 12,38% | 787,573 | 11.56% |
| Project finance | 278,550 | 3.79% | 177,283 | 2.60% |
| Property operations and business services | 23,974 | 0.33% | 42,715 | 0.63% |
| Transport, storage and communications | 62,616 | 0.85% | 64,333 | 0.94% |
| Other services | 894,424 | 12.16% | 982,305 | 14.42% |
| | **7,357,721** | **100.00%** | **6,812,643** | **100.00%** |

### Concentration of assets and liabilities

The assets and liabilities of the Bank are concentrated on amounts due from and to the Republic of Croatia, as follows:

| | Notes | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| Current accounts with the Croatian National Bank | 5 | 1,225,562 | 1,670,923 |
| Obligatory reserve with the Croatian National Bank | 5 | 472,984 | 662,954 |
| Republic of Croatia government bonds | 8,9 | 764,656 | 923,398 |
| Loans and advances to government | | 161,386 | 188,971 |
| Other assets | | 2,293 | 2,306 |
| Deferred tax assets | | 28,742 | 40,664 |
| | | **2,655,623** | **3,348,216** |
| Off-balance-sheet commitments | | - | - |

As at 31 December 2020 total exposure towards the Republic of Croatia amounted to 25% of total assets (2019: 33%).

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Credit quality per class of financial assets

Presentation of total exposure according to credit quality and allocation to the individual risk categories which include all credit risk exposures (loans and advances, placements with and loans to other banks, FVOCI instruments, exposure toward CNB and other):

| | | | Exposure 31.12.2020 |
|---|---|---|---|
| **HRK thousand** | **Total** | **On Balance** | **Off Balance** |
| Gross carrying amount | 11,706,179 | 10,799,845 | 906,335 |
| Risk provisions | (374,785) | (361,205) | (13,553) |
| Book value | 11,331,422 | 10,438,639 | 892,782 |

The credit quality of financial assets is managed by the Bank using internal credit ratings.

The Bank's credit rating system consists of 4 risk categories, according to the creditworthiness of the clients:

| Risk category | Internal rating | Description |
|---|---|---|
| Low | 1-12 | Clients with excellent creditworthiness |
| Medium | 13-18 | Clients with medium creditworthiness |
| High | 19-25 | Clients with low creditworthiness |
| Default | 26 | Clients in default |

Each rating category is further divided into sub-groups (representing 26 internal credit rating grades). Low risk category can be achieved only by clients of excellent credit quality.

Credit quality (expressed through risk categories) per class of financial assets (loans and advances to customers, placements to other banks, securities and off-balance-sheet items) is presented in the table below. The past due amounts are presented separately (therefore included in the total exposure amount).

According to the classes of financial assets, the significant portion of financial assets relates to loans and advances to individuals and unincorporated business (45.39% of the exposure) and companies and similar organisations (26.57% of the exposure).

According to the credit quality of the portfolio, the majority of customers can be regarded as having good creditworthiness (89,23% of customers is risk category medium or low).

Total past due amounts (not from impaired loans) represent in total 7.78 % of the total exposure as of 31 December 2020 (31 December 2019: 7.78%). 7.27 % (31 December 2019: 7.78%) of total loans and advances, out of the total past due amount, relates to past due amounts of individuals and unincorporated business and 0.50% (31 December 2019: 0.75%) to past due amounts from companies and similar organisations.

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Credit quality per class of financial assets (continued)

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

| HRK thousand | | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Off Balance | Total | Total |
| Low credit risk | 6,527,690 | 44,728 | 1,055 | - | 413,295 | 6,986,768 | 4,271,941 |
| Moderate credit risk | 2,863,090 | 231,984 | 2,026 | - | 442,000 | 3,539,100 | 4,769,205 |
| High credit risk | 242,235 | 357,074 | 24,911 | - | 21,556 | 645,776 | 643,058 |
| Default | - | - | 325,054 | - | 1,911 | 326,965 | 783,326 |
| Without internal credit rating | 164,823 | 14,758 | 417 | - | 27,573 | 207,571 | 6,442 |
| **Gross carrying amount** | **9,797,838** | **648,544** | **353,463** | **-** | **906,335** | **11,706,180** | **10,473,972** |
| Risk provision | (82,231) | (65,604) | (213,370) | - | (13,553) | (374,758) | (712,490) |
| **Net carrying amount** | **9,715,606** | **582,940** | **140,093** | **-** | **892,782** | **11,331,422** | **9,761,482** |

The Bank monitors the concentrations of credit risk by sector and by risk classification. The following tables show the carrying amounts of financial instruments for which the loss allowance is measured at an amount equal to 12-month expected credit losses.

| HRK thousand | | | 2020 | | | |
|---|---|---|---|---|---|---|
| | Loans and advances to credit institutions | Loans to Sovereigns and Central banks | Loans and advances to customers | Trade receivables and Financial asset at FVOCI | Off Balance | Total |
| | Stage 1 | Stage 1 | Stage 1 | Stage 1 | Stage 1 | Stage 1 |
| Low credit risk | 943,491 | 1,734,815 | 3,078,688 | 770,685 | 410,289 | 6,937,968 |
| Moderate credit risk | 31,738 | - | 2.831.352 | | 429,672 | 3,292,762 |
| High credit risk | - | - | 242.235 | | 15,598 | 257,833 |
| Default | - | - | 11 | | - | 11 |
| Without internal credit rating | - | 101,925 | 62,898 | | 27,573 | 192,396 |
| **Gross carrying amount** | **975,229** | **1,836,740** | **6,215,184** | **770,685** | **883,132** | **10,680,970** |
| Risk provision | (56) | (700) | (80,779) | (696) | (11,726) | (93,957) |
| **Net carrying amount** | **975,173** | **1,836,040** | **6,134,405** | **769,989** | **871,406** | **10,587,013** |

## NOTE 34 – RISK MANAGEMENT (continued)

### NOTE 34.2 - CREDIT RISK (continued)

### Credit quality per class of financial assets (continued)

| HRK thousand | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Loans and advances to credit institutions | Loans to Sovereigns and Central banks | Loans and advances to customers | Financial asset at FVOCI | Off Balance | Total |
| | Stage 1 | Stage 1 | Stage 1 | Stage 1 | Stage 1 | Stage 1 |
| Low credit risk | 774,263 | 2,505,474 | 807,376 | 790,385 | 152,747 | 5,030,245 |
| Moderate credit risk | 7,457 | - | 4,795,568 | - | 433,408 | 5,236,433 |
| High credit risk | - | - | 143,775 | - | 8,192 | 151,967 |
| Default | - | - | - | - | - | - |
| Without internal credit rating | 19 | - | 205 | - | 30 | 254 |
| **Gross carrying amount** | **781,739** | **2,505,574** | **5,746,924** | **790,385** | **594,377** | **10,418,899** |
| Risk provision | (15) | (967) | (76,096) | (42) | (6,954) | (84,074) |
| **Net carrying amount** | **781,724** | **2,504,507** | **5,670,828** | **790,343** | **587,423** | **10,334,825** |

The following tables show the carrying amounts of financial assets and the exposure on off-balance items for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets.

| HRK thousand | 2020 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to credit institutions | Loans to Sovereigns and Central banks | Loans and advances to customers | Off Balance | Total |
| | Stage 2 | Stage 2 | Stage 2 | Stage 2 | Stage 2 |
| Low credit risk | - | - | 44,728 | 2,990 | 47,718 |
| Moderate credit risk | 1,353 | - | 230,632 | 12,281 | 244,265 |
| High credit risk | 4 | - | 357,070 | 5,873 | 362,946 |
| Without internal credit rating | 26 | - | 14,732 | - | 14,758 |
| **Gross carrying amount** | **1,383** | - | **647,161** | **21,143** | **669,687** |
| Risk provision | (12) | - | (65,592) | (993) | (66,597) |
| **Net carrying amount** | **1,370** | - | **581,569** | **20,150** | **603,090** |

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Credit quality per class of financial assets (continued)

| HRK thousand | 2019 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to credit institutions | Loans to Sovereigns and Central banks | Loans and advances to customers | Off Balance | Total |
| | Stage 2 | Stage 2 | Stage 2 | Stage 2 | Stage 2 |
| Low credit risk | 9 | 15 | 10,986 | 642 | 11,652 |
| Moderate credit risk | 13 | - | 182,033 | 8,474 | 190,520 |
| High credit risk | - | - | 389,952 | 2.360 | 392,312 |
| Without internal credit rating | 105 | - | 868 | - | 973 |
| **Gross carrying amount** | **127** | **15** | **583,839** | **11,476** | **595,457** |
| Risk provision | (2) | - | (57,868) | (231) | (58,101) |
| **Net carrying amount** | **125** | **15** | **525,971** | **11,245** | **537,356** |

The following tables show the carrying amounts of financial assets and the exposure on off-balance items for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are financial instruments that are credit impaired at the reporting date.

| HRK thousand | 2020 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to credit institutions | Loans to Sovereigns and Central banks | Loans and advances to customers | Off Balance | Total |
| | Stage 3 | Stage 3 | Stage 3 | Stage 3 | Stage 3 |
| Low credit risk | - | - | 1,055 | 16 | 1,071 |
| Moderate credit risk | - | - | 2,026 | 47 | 2,073 |
| High credit risk | - | - | 24,911 | 85 | 24,997 |
| Default | - | - | 325,054 | 1,911 | 326,966 |
| Without internal credit rating | - | - | 417 | - | 417 |
| **Gross carrying amount** | **-** | **-** | **353,463** | **2,060** | **355,523** |
| Impairment provision | - | - | (213,370) | (834) | (214,204) |
| **Net carrying amount** | **-** | **-** | **140,093** | **1,225** | **141,319** |

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Credit quality per class of financial assets (continued)

| HRK thousand | | | 2019 | | |
|---|---|---|---|---|---|
| | Loans and advances to credit institutions | Loans to Sovereigns and Central banks | Loans and advances to customers | Off Balance | Total |
| | Stage 3 | Stage 3 | Stage 3 | Stage 3 | Stage 3 |
| Low credit risk | - | - | 1,689 | 7 | 1,696 |
| Moderate credit risk | - | - | 1,445 | 14 | 1,459 |
| High credit risk | - | - | 14,620 | 48 | 14,668 |
| Default | - | - | 280,038 | 1,232 | 281,270 |
| Without internal credit rating | - | - | 515 | - | 515 |
| **Gross carrying amount** | **-** | **-** | **298,307** | **1,301** | **299,608** |
| Impairment provision | - | - | (197,527) | (522) | (198,049) |
| **Net carrying amount** | **-** | **-** | **100,780** | **799** | **101,559** |

Bank has no financial asset classified purchased or originated credit-impaired financial assets (POCI) as at 31 December 2020.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

The following table, which summarises analysis of credit risk by internal credit rating, is based on management accounting and as such differs from the classifications used elsewhere in the financial statements.

| 31 December 2020 | Risk category - low | Risk category - medium | Risk category - High | Default | Without internal credit rating | Total exposure | Aligned to Note | Past due, not impaired (from the Total) |
|---|---|---|---|---|---|---|---|---|
| Loans and advances to customers | | | | | | | | |
| - companies and similar organisations | 494,592 | 1,787,789 | 119,162 | 77,085 | 179,956 | 2,658,584 | 7(a) | 50,469 |
| - individuals and unincorporated business | 2,482,757 | 1,306,371 | 505,050 | 247,980 | 41 | 4,542,199 | 7(a) | 727,616 |
| - other | 153,998 | 2,940 | - | - | - | 156,938 | 7(a) | 2 |
| Placements with and loans to other banks | 939,061 | 33,121 | - | - | - | 972,182 | 6 | - |
| Fair value through other comprehensive income financial assets | 770,685 | - | - | - | - | 770,685 | 9 | - |
| Off-balance-sheet items | 413,295 | 442,000 | 21,556 | 1,911 | 27,573 | 906,335 | | - |
| | **5,254,388** | **3,572,221** | **645,768** | **326,976** | **207.570** | **10,006,923** | | **778,087** |

| 31 December 2019 | Risk category - low | Risk category - medium | Risk category - High | Default | Without internal credit rating | Total exposure | Aligned to Note | Past due, not impaired (from the Total) |
|---|---|---|---|---|---|---|---|---|
| Loans and advances to customers | | | | | | | | |
| - companies and similar organisations | 389,709 | 2,072,919 | 134,150 | 79,104 | 1,242 | 2,677,124 | 7(a) | 67,008 |
| - individuals and unincorporated business | 613,516 | 2,903,536 | 414,198 | 200,929 | 228 | 4,132,407 | 7(a) | 631,551 |
| - other | 352 | 2,602 | - | 7 | 152 | 3,113 | 7(a) | 4 |
| Placements with and loans to other banks | 762,518 | 7,349 | - | - | 28 | 769,895 | 6 | - |
| Available-for-sale financial assets | 790,385 | 141 | - | - | - | 790,526 | 9 | - |
| Off-balance-sheet items | 153,409 | 441,888 | 10,654 | 1,232 | 30 | 607,213 | | |
| | **2,709,889** | **5,428,435** | **559,002** | **281,272** | **1,680** | **8,980,278** | | **698,563** |

The total amount of past due nor impaired financial assets as at 31 December 2020 amounts to 778,087 thousand HRK (31 December 2019: 698,563 thousand HRK).

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Aging analysis of past due but not impaired loans per class of financial assets

The table below represents the aging structure of past due amounts (not from impaired loans) per classes of financial assets. Amounts presented are total outstanding exposures according to the worst delay in payment under each facility. As of 31 December 2020 the largest portion, 93,51 %, of past due amounts relate to individuals (31 December 2019: 90.41 %) and the remaining part of 6,49 % (31 December 2019: 9.59 %) relates to companies and others.

| **31 December 2020** | **Less than 30 days** | **31 to 90 days** | **91 to 365 days** | **More than 365 days** | **Total** |
|---|---|---|---|---|---|
| Past due exposures to: | | | | | |
| - companies | 35,143 | 15,165 | 159 | 3 | 50,469 |
| - individuals | 622,720 | 93,745 | 10,832 | 319 | 727,616 |
| - other | 2 | - | - | 0 | 2 |
| | **657.865** | **108.910** | **10.991** | **322** | **778.087** |

| **31 December 2019** | **Less than 30 days** | **31 to 90 days** | **91 to 365 days** | **More than 365 days** | **Total** |
|---|---|---|---|---|---|
| Past due exposures to: | | | | | |
| - companies | 65,386 | 1,618 | 4 | - | 67,008 |
| - individuals | 527,941 | 94,120 | 9,117 | 373 | 631,551 |
| - other | 4 | - | - | - | 4 |
| | **593,331** | **95,738** | **9,121** | **373** | **698,563** |

## NOTE 34 – RISK MANAGEMENT (continued)

### NOTE 34.2 - CREDIT RISK (continued)

### FORBEARANCE EXPOSURE

In order to ensure that Bank's principles are met, the internal credit policies set out specific restructuring related requirements. The existing distressed restructuring related internal policies have been revised and updated for the purpose of ensuring full conformity with EBA's requirements for reporting on forbearance and non-performing exposures under Regulation (EU) No. 575/2013.
Exposures are classified as forborne if a concession on an existing contract is granted which is caused by either existing or anticipated financial difficulties of the client which would endanger fulfilment of the client's existing financial obligations.
The identification of forborne exposures is undertaken on transaction level and exposures are only assessed if a concession is granted. Thus, exposures without a concession are not assessed as no forbearance-relevant measure is applicable.
Concessions can be initiated by the bank or the client. Among other measures the reduction in interest rate, extension of the tenor or write-off indicates that exposures need to be classified as forborne.
The forbearance status is differentiated in:

- Performing forborne;
- Non-performing forborne.

Exposures to which a concession is granted are classified as performing if:

- The exposure was classified as performing at the time of signing the concession and
- The concession did not reclassify the exposure as non-performing.
- The exposures healed from non-performing forborne

The classification as forborne can be reset to not forborne if the following criteria are met:

- The exposure is considered as performing;
- A probation period of at least 2 years has passed since the forborne exposure was classified as performing;
- Regular payments of a significant amount of principal or interest have been made for half of the probation period;
- At the end of the probation period, none of the exposures of the debtor is more than 30 days past due

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### FORBEARANCE EXPOSURE (continued)

In the following table forborne exposures of Bank as of 31 December 2020 are presented:

| | | Forbearance status as of 31 Dec 2020 | |
|---|---|---|---|
| **HRK thousand** | **Gross carrying amount of exposures with forbearance measures** | **Performing exposures with forbearance measures** | **Non-performing exposures with forbearance measures** |
| Loans and advances | 203,940 | 91,855 | 112,085 |

| | | Forbearance status as of 31 Dec 2019 | |
|---|---|---|---|
| **HRK thousand** | **Gross carrying amount of exposures with forbearance measures** | **Performing exposures with forbearance measures** | **Non-performing exposures with forbearance measures** |
| Loans and advances | 196,391 | 96,859 | 99,533 |

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

## NON PERFORMING LOAN PORTFOLIO / NPL

The quality of the loan portfolio is protected by periodic reviews and the on-going monitoring of credit exposure. The monitoring process is aimed at:

- Identification of symptoms and threats affecting the client;
- Undertaking actions preventing the deterioration of credit portfolio quality;
- Maximizing the probability of recovery of the Bank's assets.

Early risk identification is a crucial part of risk management and aims at avoiding or mitigating possible credit losses for the bank. The sooner the negative developments are identified and the more consistently solutions are implemented, the greater are the restructuring options and their success.

If the monitoring process shows indications of the borrower's inability to fulfill obligations to repay the debt, the loan is assigned to the Restructuring and Workout Department (RWO).

The table below shows the development of the non-performing portfolio of year 2020 in comparison to year 2019:

| | Total exposure | |
|---|---|---|
| **HRK thousand** | **31.12.2020** | **31.12.2019** |
| NPL volume | 353,463 | 298,307 |

*(All amounts in HRK thousands unless otherwise stated)*

**NOTE 34 – RISK MANAGEMENT (continued)**

**NOTE 34.2 - CREDIT RISK (continued)**

**COLLATERAL**

The Bank considers the three main classes for collaterals:

- first class collateral - highly liquid or marketable in relatively short-term (e.g. cash deposit, real estates, bank guarantees etc.),
- adequate collateral in the form of real estate and movable property and
- other collateral (e.g. pledge on salaries).

The Bank monitors the market value of collateral on an ongoing basis.

The fair market value of real estate collateral in the current inactive market is difficult to estimate with high level of certainty.

**Credit risk exposure and collateral coverage for each internal risk rating**

The table below shows the distribution of credit risk exposure per internal credit rating groups and the share of the unsecured part of the exposure (after applied hair-cut):

| | **31 December 2020** | | **31 December 2019** | |
|---|---|---|---|---|
| | **Exposure amount** | **Unsecured share of exposure** | **Exposure amount** | **Unsecured share of exposure** |
| Risk category - low | 5,254,388 | 82,96% | 2,709,889 | 83,43% |
| Risk category - medium | 3,572,221 | 62,62% | 5,428,435 | 73,02% |
| Risk category - high | 645,768 | 72,91% | 559,002 | 77,32% |
| Default | 326,976 | 73,76% | 281,271 | 74,26% |
| Without internal credit rating | 207,570 | 71,90% | 1,680 | 100,00% |
| **Total** | **10,006,923** | **74,76%** | **8,980,277** | **76.47%** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Offsetting financial assets and financial liabilities

Sberbank d.d. uses master netting agreements as a method to reduce the credit risk exposure of derivatives and loans with financial insurance. They represent a possibility for net settlement of all contracts in case of any counterparty not fulfilling their payment obligations. For derivatives, the amounts of the assets and liabilities which are subject to offsetting on the basis of the master netting agreement are shown in the column “Financial instruments”. Loans with financial insurance are characterized by an arrangement of simultaneous sale and purchase of securities at a predefined price and time, thus ensuring that the security remains in the possession of the creditor as collateral in case the debtor does not meet its obligations. The effects of offsetting this agreements are shown in the column Non-monetary financial collaterals, received/provided. The collateral represents the market value of the transferred security; however, if the security’s market value exceeds the book value of the receivable/liability of the loans with financial insurance, the value equals the book value.

Offsetting financial assets and financial liabilities

**31 December 2020**

| **Financial assets subject to netting agreements** | **Financial assets gross amount** | **Financial instruments** | **Received monetary collaterals** | **Received non-monetary collaterals** | **Net amount after potential netting** |
|---|---|---|---|---|---|
| Derivatives | 2,676 | - | 24,584 | - | **27,261** |
| **Total** | **2,676** | **-** | **24,584** | **-** | **27,261** |

| **Financial liabilities subject to netting agreements** | **Financial liabilities gross amount** | **Financial instruments** | **Given monetary collaterals** | **Given non-monetary collaterals** | **Net amount after potential netting** |
|---|---|---|---|---|---|
| Derivatives | (2,456) | - | (5,276) | - | **(7,732)** |
| Received repo loans/ Loans with financial insurance | 271,258 | - | - | (394,550) | **(121,824)** |
| **Total** | **268,802 -** | **-** | **(5,276)** | **(394,550)** | **(129,556)** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.2 - CREDIT RISK (continued)

### Offsetting financial assets and financial liabilities (continued)

**31 December 2019**

| Financial assets subject to netting agreements | Financial assets gross amount | Financial instruments | Received monetary collaterals | Received non-monetary collaterals | Net amount after potential netting |
|---|---|---|---|---|---|
| Derivatives | 2,042 | - | 25,850 | - | **27,892** |
| **Total** | **2,042** | **-** | **25,850** | **-** | **27,892** |

| Financial liabilities subject to netting agreements | Financial liabilities gross amount | Financial instruments | Given monetary collaterals | Given non-monetary collaterals | Net amount after potential netting |
|---|---|---|---|---|---|
| Derivatives | (2,292) | - | (1,935) | - | **(4,227)** |
| Received repo loans/ Loans with financial insurance | 258,475 | - | - | (271,619) | **(13,144)** |
| **Total** | **256,183 -** | **-** | **(1,935)** | **(271,619)** | **(17,371)** |

## NOTE 34 – RISK MANAGEMENT (continued)

### NOTE 34.3 - LIQUIDITY RISK

Liquidity, or the ability to fund increases in assets and meet obligations, is crucial to the ongoing viability of the Bank.

Liquidity risk management involves setting a strategy for the Bank, ensuring effective board and senior management oversight, as well as operating under a sound process for measuring, monitoring and controlling liquidity risk.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including various types of retail and corporate deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on a single source of funds and generally lowers the funding cost.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses the liquidity risk by identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the Bank's overall strategy. Furthermore, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The Bank adjusts its business activities in compliance with legislation and internal policies for maintenance of liquidity reserves by matching liabilities and assets with limits and preferred liquidity ratios. The Bank manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

The Bank maintains a liquidity contingency plan. This plan identifies the early indicators, defines the responsibilities and actions to be taken in the event of liquidity crises.

Short term liquidity is monitored daily. The market risk unit has established process of measurement, monitoring and reporting on the short term liquidity, as per CNB quantitative requirements, as well as for liquidity requirements prescribed by internal policies.

On a daily basis the Bank calculates and monthly reports on Liquidity Coverage Ratio (LCR). The calculation is based on Delegated Act (EU) 2015/61, and Directive (EU) 575/2013.

LCR is a short-term liquidity indicator, which insures that a bank holds sufficient buffer of highly liquid and easily convertible asset that can be, in case of an emergency fast and with no major losses, converted into cash, and in the period of 30 days finance all planned and unplanned outflows.

LCR limit is set to 100% for SBHR. During 2020 the Bank was compliant with LCR limit.

Liquidity position of a Bank is also managed through the assessment of an impact of specific potential events and/or of altered financial factors onto the financial standing of the bank. During this process, both internal and external bank-specific factors are considered.

The calculation is based on the bi-weekly liquidity report which in addition to the contractual items also includes a projection of the liquidity positions. The projections are the result of the current activities of the individual business segments and of the budgeted values.

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

### NOTE 34.3 - LIQUIDITY RISK (continued)

The following three stress scenarios are conducted:
1) **Bank specific scenario** (disruptions in the reputation of the Bank - at the same time, the situation on the market is stabile);
2) **Market-wide scenario** (disruptions on the market (reduced liquidity) - at the same time, the situation in the Bank is stable);
3) **Combined scenario** (combination of these two scenarios).

The scenarios are implemented by applying a haircut to the positions of the liquidity report, followed by the calculation of the cumulative liquidity gap which is a cumulative difference between cash inflows and outflows in each time bucket. Liquidity buffer, which consists of cash, deposits at CNB, securities and the committed line of credit of the Group, is added to the resulting curve. Survival horizon is a period during which the Bank is able to settle its obligations without additionally intervening in the assets / liabilities structure.

The results of stress test for year 2020 and 2019 are disclosed below::

**31 December 2020**

| Scenario | Indicator | up to 5 days | from 5 days to 1 month | from 1 to 3 months | from 3 to 6 month | from 6 do 12 month |
|---|---|---|---|---|---|---|
| **Bank scenario** | Liquidity gaps with liquidity buffer in ths HRK | 1,719,277 | 1,467,902 | 396,630 | (391,317) | (1,355,171) |
| **Market scenario** | | 1,671,790 | 1,490,105 | 619,137 | 114,703 | (514,177) |
| **Combined scenario** | | 1,543,111 | 1,201,740 | 91,779 | (788,349) | (1,848,414) |

**31 December 2019**

| Scenario | Indicator | up to 5 days | from 5 days to 1 month | from 1 to 3 months | from 3 to 6 month | from 6 do 12 month |
|---|---|---|---|---|---|---|
| **Bank scenario** | Liquidity gaps with liquidity buffer in ths HRK | 2,404,326 | 2,515,486 | 1,590,346 | 552,781 | (646,710) |
| **Market scenario** | | 2,417,328 | 2,628,083 | 1,919,593 | 1,149,463 | 408,867 |
| **Combined scenario** | | 2,236,770 | 2,295,830 | 1,328,678 | 205,528 | (1,097,212) |

**Long term liquidity** is controlled within the maturity structure of the Bank’s assets and liabilities which is analysed by the data used to calculate NSFR (request for net stable funding ratio). The calculation is based on Regulation (EU) no. 575/2013, and is designed to improve the medium and long term liquidity in a way to limit the possibility of short-term financing, and encourage the improvement of maturity structure of assets and liabilities. Internal limit for NSFR is set at 106%.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.3 - LIQUIDITY RISK (continued)

### Analysis of the financial liabilities

The report below shows the liability maturity structure of the undiscounted liabilities taking into account the earliest possible date of repayment. The Bank's financial liabilities without contracted maturity are treated as liabilities on demand.

**2020**
**Liabilities**

| ths HRK | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Deposits from credit institutions | 32,000 | 442,000 | 165,000 | - | - | 639,000 |
| Deposits from customers | 3,833,000 | 732,000 | 2,730,000 | 462,000 | 293,000 | 8,050,000 |
| Borrowings | - | 14,000 | 64,000 | 365,000 | 316,000 | 759,000 |
| Lease liability | - | 3,000 | 10,000 | 24,000 | 50,000 | 87,000 |
| | 3,865,000 | 1,191,000 | 2,969,000 | 851,000 | 659,000 | 9,535,000 |

**2019**
**Liabilities**

| ths HRK | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Deposits from credit institutions | 17,000 | 411,000 | 721,000 | - | - | 1,149,000 |
| Deposits from customers | 3,245,000 | 789,000 | 2,709,000 | 614,000 | 331,000 | 7,688,000 |
| Borrowings | - | 50,000 | 80,000 | 281,000 | 197,000 | 608,000 |
| Lease liability | - | 3,000 | 10,000 | 27,000 | 59,000 | 99,000 |
| | 3,262,000 | 1,253,000 | 3,520,000 | 922,000 | 587,000 | 9,445,000 |

The contractual maturity structure of the Bank's contingent liabilities and commitments:

**2020**

| ths HRK | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Guarantees | 391,260 | - | - | - | - | 391,260 |
| Letters of credit | - | 10,036 | 2,784 | - | - | 12,820 |
| Undrawn commitments | 488,702 | - | - | - | - | 488,702 |
| **Total at 31 December 2020** | 879,962 | 10,036 | 2,784 | - | - | 892,782 |

**2019**

| ths HRK | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Guarantees | 355,836 | - | - | - | - | 355,836 |
| Letters of credit | - | 1,896 | 1,652 | - | - | 3,549 |
| Undrawn commitments | 240,121 | - | - | - | - | 240,121 |
| **Total at 31 December 2019** | 595,957 | 1,896 | 1,652 | - | - | 599,506 |

## NOTE 34.4 – MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

### NOTE 34.4.1 MARKET RISK –TRADING BOOK

Market risk management of the Trading book assets and liabilities is based on the methods prescribed by CNB and EBA, guidelines prescribed on the group level and internal policies.

For each type of financial instruments in the trading portfolio, the appropriate limits had been set depending on the risks that financial instruments are exposed to.

Volume limits and limits for maximum loss are prescribed and are monitored daily.

At the end of 2020, the Trading book consist of state bonds, foreign exchange forward and swap contracts.

Capital requirements for market risk exposure of the Trading book items are calculated using the methodology prescribed by the REGULATION (EU) No 575/2013.

### NOTE 34.4.2 MARKET RISK BANKING BOOK

Market risk for the banking book includes currency risk, interest rate risk and equity price risk (the Bank’s exposure to equity price risk in the Banking book is not significant).

#### Interest rate risk

Interest rate risk is the exposure of a Bank’s financial condition to adverse movements in interest rates. Accepting this risk is a normal part of banking operations, however excessive interest rate risk can impose a significant threat to a Bank’s earnings and capital base.

The primary form of the interest rate risk is the re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of the Bank’s assets, liabilities and off balance sheet positions. Managing interest rate risk within the Basel framework is also coordinated on a group level and it is based on SAP application, which provides measures for interest rate risk management and possibility of detailed analysis of exposure to interest rate risk.

In overall, SBHR, within the Group project produced the comprehensive impact of the Benchmark. Reform on the SBEU group, including SBHR can be considered as moderate because major part of exposure to reference interest rates is related to benchmarks which are not subject for replacement due to BMR compliance (EURIBOR, CZK PRIBOR and HUF BUBOR). Although EURIBOR linked products represent highest exposure on SBEU Group level, introduction of hybrid EURIBOR methodology is not expected to have significant impact while no contracts renegotiation is required and impact on IT systems and internal processes is minimal. With regard to EONIA – ESTER transition only small overall impact is expected due to the fact that EONIA is not referenced in any of the SBEU products and used for the calculation of interest on received/posted collateral under ISDA/CSA agreement. Despite the fact that local benchmarks used (HRK ZIBOR and HRK NRS) are not BMR, administration of HRK ZIBOR and HRK NRS was taken over by the Croatian National Bank, which ensured BMR compliance.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 34– RISK MANAGEMENT (continued)

## NOTE 34.4.2 MARKET RISK BANKING BOOK (continued)

### Sensitivity of the net interest income on changes of interest rates

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income for one year. The tables below provide overview of sensitivity of the Bank's earnings to ±200 bp for EUR and other currencies and to ±250bp for HRK reasonably possible movements in interest rates.

**2020**

| Currency | Increase in basis points | Sensitivity of net interest income | Decrease in basis points | Sensitivity of net interest income |
|---|---|---|---|---|
| | | In ths HRK | | in ths HRK |
| HRK | +250 | 5,284 | -250 | (5,284) |
| EUR | +200 | 6,884 | -200 | (6,884) |
| Others | +200 | 281 | -200 | (281) |

**2019**

| Currency | Increase in basis points | Sensitivity of net interest income | Decrease in basis points | Sensitivity of net interest income |
|---|---|---|---|---|
| | | in ths HRK | | in ths HRK |
| HRK | +200 | 2,731 | -200 | (2,731) |
| EUR | +200 | 8,700 | -200 | (8,700) |
| Others | +200 | 440 | -200 | (440) |

For the purpose of calculation of the effect on net interest income, interest sensitive assets and liabilities are classified as follows:

- Fixed rate assets and liabilities according to their maturity;
- Floating rate assets and liabilities according to the re-pricing date;
- Assets and liabilities with the interest rate where maturity or re-pricing date is not known are allocated to relevant time bucket according to the assumptions based on the historical data and market specifics.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 34 – RISK MANAGEMENT (continued)

## NOTE 34.4.2 MARKET RISK BANKING BOOK (continued)

### Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit, investment and other trading activities.

The Bank manages its currency risk by setting principles and a limit structure for foreign currency exposures, whilst ensuring continuous monitoring of the exposures against the limits set.

According to the legislation and internally set limits, the currency risk exposure is regularly monitored for each currency and for the overall balance and off balance sheet positions that are denominated or linked to foreign currency.

The Bank directs its business activities by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining the daily business activities in accordance with market movements.

| | **31 December 2020** | | | | **31 December 2019** |
|---|---|---|---|---|---|
| **Assets** | HRK | EUR | Other | Total | |
| Cash reserves and balances with the Croatian National Bank | 1,807,306 | 88,427 | 4,357 | 1,900,090 | 2,521,120 |
| Placements with and loans to other banks | 15,006 | 803,115 | 154,061 | 972,182 | 769,895 |
| Financial assets at fair value through profit or loss | 68,510 | 91,431 | - | 159,941 | 221,736 |
| Loans and advances to customers | 2,422,185 | 4,555,896 | 19,687 | 6,997,768 | 6,481,403 |
| Financial assets at fair value through other comprehensive income | 389,439 | 381,246 | - | 770,685 | 790,526 |
| **Total assets** | **4,702,446** | **5,920,115** | **178,105** | **10,800,666** | **10,784,680** |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits from banks | 128,394 | 509,842 | - | 638,236 | 1,145,472 |
| Financial liabilities at fair value through profit or loss | 2,456 | - | - | 2,456 | 2,292 |
| Deposits from customers | 3,210,222 | 4,623,264 | 176,430 | 8,009,916 | 7,638,881 |
| Other borrowings | 683,161 | 56,104 | - | 739,265 | 587,352 |
| Subordinated liabilities | - | 203,640 | - | 203,640 | 201,106 |
| **Total liabilities** | **4,024,233** | **5,392,850** | **176,430** | **9,593,513** | **9,575,104** |

## NOTE 34 – RISK MANAGEMENT (continued)

### Sensitivity on currency changes

Sensitivity to currency risk is calculated as the effect of the unfavourable change in foreign exchange applied on the exposure.

The table below shows the currencies to which the Bank has significant exposure, and the effect on the income statement of the change in these currencies applied to the overall Bank's position.

| | **31 December 2020** | | | **31 December 2019** | |
|---|---|---|---|---|---|
| | **Change in currency rate** | **Income statement effect (in ths. HRK)** | | **Change in currency rate** | **Income statement effect (in ths. HRK)** |
| EUR | 5% | (6,579) | EUR | 5% | (11,450) |

## NOTE 34.5 OPERATIONAL RISK MANAGEMENT

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.
The Bank is continuously making improvements of the system for managing operational risks in accordance with the Basel framework, local regulations and Group policies.

Yearly review of internal documents for operational risk management is regularly performed.
Operational risk analysis (Operational Risk and control self-assessment) is conducted yearly in the Bank, where the potentially most risk-bearing internal processes in respect of operational risks are successfully identified and are subject to an in-depth analysis. Where deemed necessary, additional controls and risk mitigating measures have been defined by the Bank.

Group methodology for Scenario analysis is implemented in the Bank. The Bank uses scenario analysis for identifying rare material risks (also those potential risks that haven't occurred yet) and control system deficiencies (developing mitigation actions). Scenario analyses are conducted annually with the possibility of ad-hoc scenario analysis.

According to the underlying Group guidelines risk analysis is conducted for every new product introduced in the Bank.

Furthermore, raising awareness of Operational risk is done through education, and also within the regular internal education of new employees. We have made additional customization of on-line OpRisk testing, by dedicated business areas. Education is conducted by the Operational risk department.

All events caused by operational risks regardless of whether they resulted in a loss for the Bank are entered and administrated in the OpRisk database. Based on these data possible additional measures/controls are defined and implemented. Changes in process of collection of events caused by operational risk and reporting on these events were also implemented to be aligned with Group methodology.

The Bank has the Early warning system – Key Risk Indicators (KRI) which was developed on the Group level. Key Risk Indicators are implemented and administrated in the OpRisk database, which are included in the operational risk reports.

## NOTE 34.5 OPERATIONAL RISK MANAGEMENT (continued)

In 2020 the Bank continued to review and improve the internal control system (based on the underlying Group policy and the CNB regulations). There are two types of controls – operational controls and management controls (which controls operational controls). The execution of management controls is monitored through the OpRisk database and is on monthly basis reported to the Risk committee.

The Bank is regularly doing review of outsourced services which is ground for managing outsourcing risk in the Bank. Bank informs the CNB on outsourcing of materially important activities (in accordance with the CNB Decision on Outsourcing). Fraud management and all fraud related activities are established under Operational risk deparment and have continued in 2020.

The calculation of the capital requirement for operational risk (the Bank uses standard approach, according to Basel II regulations) is done on an annual basis and reported to the Group and the CNB.

## NOTE 35 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are measured at fair value. Loans and receivables are measured at amortised cost less impairment. Management believes that the carrying value of these instruments is not significantly different from their fair value.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

### Loans and advances

The fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. 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. As the Bank has a limited portfolio of loans and advances with fixed rate and longer term maturity, the management believes that the fair value of loans and advances is not significantly different from their carrying value.

### 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. As most of the Bank’s deposits are given with variable rate, being the market rate, the management believes there is no significant difference between the fair value of these deposits and their carrying value.

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 35 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Borrowings

As the majority of the Bank's borrowings bear interest at variable rates, the management believes there is no significant difference between their carrying and fair value.

### *a) Fair value hierarchy of financial instruments measured at fair value*

As explained in the accounting policies, the Bank uses levels of the fair value hierarchy for determining and disclosing the fair value of financial instruments.

At the end of 2020 the Bank classify as financial instrument in Level 3 category depositary receipts and convertible bonds from Fortenova. Investments in financial instruments provided in the Agrokor settlement proceeding are measured at fair value using the valuation techniques based on the sufficient data to measure fair value. Valuation is prepared maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The following table shows an analysis of financial instruments recorded at fair value according to the level of the fair value hierarchy.

**As at 31 December 2020**

| in ths. HRK | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets held for trading at FVTPL** | | | |
| Derivatives | | | |
| Forward foreign exchange contracts | - | 2,676 | - |
| Debt securities | 96,037 | - | - |
| **Non-trading financial assets at FVTPL** | | | |
| Equity instruments | - | - | 12,245 |
| Debt securities | - | - | 48,983 |
| **Financial assets at FVOCI** | | | |
| Debt securities | 770,544 | - | - |
| **Total assets** | **866,581** | **2,676** | **61,228** |
| **Financial liabilities held for trading** | | | |
| Derivatives | | | |
| Forward foreign exchange contracts | - | 2,456 | - |
| **Total liabilities** | | **2,456** | |

**As at 31 December 2019**

| in ths. HRK | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets held for trading at FVTPL** | | | |
| Derivatives | | | |
| Forward foreign exchange contracts | - | 2,042 | - |
| Debt securities | 33,012 | - | - |
| **Non-trading financial assets at FVTPL** | | | |
| Equity instruments | - | - | 17,642 |
| Debt securities | - | - | 71,767 |
| **Financial assets at FVOCI** | | | |
| Debt securities | 790,385 | - | - |
| **Total assets** | **923,397** | **2,042** | **89,409** |
| **Financial liabilities held for trading** | | | |
| Derivatives | | | |
| Forward foreign exchange contracts | - | 2,292 | |
| **Total liabilities** | | **2,292** | |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 35 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### *a) Fair value hierarchy of financial instruments measured at fair value (continued)*

During 2020 and 2019 there were no transfers of assets within the fair value hierarchy levels.

The appropriate yield curve used to discount the future cash flows in "mark-to-model" level 2 valuation measurements is the yield curve associated with the nominal currency of the security.

### *b) Fair value hierarchy for financial instruments not measured at fair value*

As at 31 December 2019 and 2020 cash reserves and balances with the Croatian National Bank, placements with and loans to other banks and loans and advances to customers are measured at amortised cost, but however due to nature of those transactions, contractual cash flows for loans and short-term maturity for cash reserves and placements it is considered that their carrying value approximates their fair value.

**As at 31 December 2020**

| **in ths. HRK** | **Carrying value** | **Fair value** |
|---|---|---|
| Cash reserves and balances with the Croatian National Bank | 1,900,090 | 1,900,090 |
| Placements with and loans to other banks | 972,182 | 972,182 |
| Loans and advances to customers | 6,997,768 | 6,997,768 |
| **Total assets** | **9,870,040** | **9,870,040** |
| Deposits from banks | **638,235** | 638,235 |
| Deposits from customers | 8,009,916 | 8,009,916 |
| Other borrowings | 739,266 | 739,266 |
| Subordinated liabilities | 203,640 | 203,640 |
| **Total liabilities** | **9,591,057** | **9,591,057** |

**As at 31 December 2019**

| **in ths. HRK** | **Carrying value** | **Fair value** |
|---|---|---|
| Cash reserves and balances with the Croatian National Bank | 2,521,120 | 2,521,120 |
| Placements with and loans to other banks | 769,895 | 769,895 |
| Loans and advances to customers | 6,481,403 | 6,481,403 |
| **Total assets** | **9,772,418** | **9,772,418** |
| Deposits from banks | 1,145,472 | 1,145,472 |
| Deposits from customers | 7,638,881 | 7,638,881 |
| Other borrowings | 587,352 | 587,352 |
| Subordinated liabilities | 201,106 | 201,106 |
| **Total liabilities** | **9,572,811** | **9,572,811** |

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 36 – CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table provides a reconciliation between the line items of the statement of financial position and categories of financial instruments

| | Note | Non-trading financial instruments at FVTPL | Trading financial instruments at FVTPL | FVTPL Debt instruments | FVOCI Debt instrument | FVOCI Equity instrument | Amortised cost | **Total carrying amount** |
|---|---|---|---|---|---|---|---|---|
| Cash reserves and balances with the CNB | 5 | - | - | - | - | - | 1,900,090 | **1,900,090** |
| Placements with and loans to other banks | 6 | - | - | - | - | - | 972,182 | **972,182** |
| Financial assets at fair value through profit or loss | 8 | 61,228 | 2,676 | 96,037 | - | - | - | **159,941** |
| Loans and advances to customers | 7 | - | - | - | - | - | 6,997,768 | **6,997,768** |
| FVOCI financial assets | 9 | - | - | - | 770,544 | 141 | - | **770,685** |
| **Total financial assets** | | **61,228** | **2,676** | **96,037** | **770,544** | **141** | **9,870,040** | **10,800,666** |
| Deposits from banks | 12 | - | - | - | - | - | 638,235 | **638,235** |
| Financial liabilities at fair value through profit or loss | 16 | - | 2,456 | - | - | - | - | **2,456** |
| Deposits from customers | 13 | - | - | - | - | - | 8,009,916 | **8,009,916** |
| Borrowings | 14 | - | - | - | - | - | 739,266 | **739,266** |
| Provisions for liabilities and charges | 17 | - | - | - | - | - | 78,260 | **78,260** |
| Subordinated liabilities | 15 | - | - | - | - | - | 203,640 | **203,640** |
| **Total financial liabilities** | | **-** | **2,456** | **-** | **-** | **-** | **9,670,767** | **9,671,773** |

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 37 – RELATED PARTY TRANSACTIONS

The Bank considers that it has an immediate related party relationship with its shareholders and their subsidiaries (mainly the Ministry of Finance of the Russian Federation Group companies), the Supervisory and Managing Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members. Bank is executing transactions with related parties using arm's length principle. The following table summarises outstanding balances at the balance sheet date with the parent company Sberbank Europe AG, ultimate parent company Sberbank of Russia, and with other members of the Ministry of Finance of the Russian Federation Group:

| **Assets** | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Ultimate parent*** | | |
| Sberbank of Russia - placements with banks | 8,129 | 4,219 |
| ***Parent*** | | |
| Sberbank Europe AG- placements with banks | 574,103 | 536,939 |
| Sberbank Europe AG- other receivables | - | 1,844 |
| Sberbank Europe AG – other assets | 608 | 443 |
| ***Other related companies*** | | |
| Sberbank Srbija A.D. Beograd- placement with banks | 164 | 161 |
| Sberbank BH d.d. – placement with banks | 20 | 28 |
| Sberbank banka d.d. - placements with banks | 22,334 | 18,763 |
| Sberbank Magyaroszagi ZRT - placements with banks | 184 | 154 |
| Sberbank CZ - placements with banks | 465 | 9,109 |
| Sberbank (Switzerland) AG – placements with banks | 199 | 753 |
| | **606,206** | **572,413** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

| **Liabilities** | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Ultimate parent*** | | |
| Sberbank of Russia - deposits from banks | 1,238 | 1,294 |
| Sberbank of Russia - other liabilities | - | - |
| ***Parent*** | | |
| Sberbank Europe AG - deposits from banks | 416,800 | 599,194 |
| Sberbank Europe AG - other liabilities | 10,700 | 4,726 |
| Sberbank Europe AG- borrowings | 203,640 | 201,105 |
| ***Other related companies*** | | |
| Pronam nekretnine d.o.o. - deposits from customers | 864 | 619 |
| Pronam nekretnine d.o.o – other liabilities | 10 | 18 |
| Sberbank banka d.d. - deposits from banks | 85,256 | 156,057 |
| Magyarorszagy Volksbank RT - deposits from banks | 74 | 112,692 |
| Sberbank BH d.d. - deposits from banks | 5,225 | 371 |
| Sberbank AD Banja Luka - deposits from banks | 799 | 951 |
| Sberbank CZ - deposits from banks | 720 | - |
| Sberbank CZ - other liabilities | - | 331 |
| | **725,326** | **1,077,358** |

| **Off-balance-sheet** | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Parent*** | | |
| *Sberbank Europe AG – undrawn commitments* | 113,053 | 223,277 |
| *Sberbank Europe AG – guarantee for credit risk* | - | - |
| ***Other related companies*** | | |
| Sberbank Magyaroszagi ZRT – guarantee issued | - | 744 |
| Sberbank CZ – guarantee received | 75,369 | 74,426 |
| Sberbank banka d.d. – guarantee issued | - | 1,749 |
| Sberbank banka d.d. – guarantee received | 26,027 | 41,120 |
| Sberbank Srbija – guarantee issued | - | 602 |
| Sberbank BH d.d. - guarantee received | 30,148 | |
| | **244,597** | **341,918** |

At 31 December 2020 there were no loans and advances for which guarantees were obtained from Sberbank of Russia, or from Sberbank Europe AG (as presented above).

(*All amounts in HRK thousands unless otherwise stated)*

## NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

### Key management personnel

The key management personnel relates to the members of the Management Board and procurators.

The key management personnel compensation in 2020 amounted to HRK 10,643 thousand (in 2019 HRK 9,488 thousand) and included gross salaries including benefits in kind. Out of these benefits, in 2020, the Bank made pension contributions into obligatory pension funds for key management personnel in the amount of HRK 555 thousand (2019: HRK 527 thousand).

The following table summarises outstanding balances at the balance sheet date as well as off-balance-sheet transactions with the key management personnel:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Assets** | | |
| Key management personnel | - | - |
| **Liabilities** | | |
| Key management personnel – deposits from customers | 13,446 | 11,324 |
| **Off-balance-sheet** | | |
| Key management personnel – undrawn commitments | 198 | 233 |

Transactions with related parties were as follows:

| 2020 | SBERBANK EUROPE AG | SBERBANK OF RUSSIA | Affiliates | Key management personnel | Total |
|---|---|---|---|---|---|
| Interest and similar income | 72 | 27 | 67 | - | 166 |
| Fee and commission income | 2 | - | 294 | 2 | 298 |
| Net trading income | - | - | - | - | - |
| Other income | - | - | 440 | - | 440 |
| **Total income** | **74** | **27** | **801** | **2** | **905** |
| Interest expense | 14,805 | - | 931 | 27 | 15,763 |
| Fee and commission expense | 3,829 | 24 | 253 | 1 | 4,107 |
| Gross salaries and benefits in kind | - | - | - | 10,643 | 10,643 |
| Other expenses | 7,690 | 535 | 4,338 | - | 12,564 |
| **Total expense** | **26,324** | **559** | **5,523** | **10,671** | **43,077** |

*(All amounts in HRK thousands unless otherwise stated)*

## NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

| 2019 | SBERBANK EUROPE AG | SBERBANK OF RUSSIA | Affiliates | Key management personnel | Total |
|---|---|---|---|---|---|
| Interest and similar income | 1,379 | 14 | 429 | - | 1,822 |
| Fee and commission income | - | 1 | 163 | 2 | 166 |
| Net trading income | - | - | - | - | - |
| Other income | - | - | 420 | 2 | 422 |
| **Total income** | **1,379** | **15** | **1,012** | **4** | **2,410** |
| Interest expense | 11,796 | - | 2,332 | 69 | 14,197 |
| Fee and commission expense | 2,628 | 25 | 1,047 | 1 | 3,701 |
| Gross salaries and benefits in kind | - | - | - | 9,488 | 9,488 |
| Other expenses | 2,304 | 291 | 10,261 | - | 12,857 |
| **Total expense** | **16,728** | **316** | **13,640** | **9,558** | **40,243** |

During the 12 months of the year 2020 Sberbank d.d. didn’t have any transactions with these related parties: JSC Sberbank AST,JSC Sberbank Tech ALB Edv – Service GmbH, CJSC Sberbank CIB, SIB (Cyprus) limited, Sberbank India, Športsko Društvo Sberbank, Sberbank CIB (UK) Ltd, SBAG IT – Services GmbH, Sberbank Corporate University and Garay Centar Ingatlanforgalmazo.

There are no other companies or individual person that could be treated as related party, except those stated above.

## NOTE 38 – EVENTS AFTER BALANCE SHEET DATE

As explained in the note 31 “Commitments and contingencies: (c) Legal proceedings” of these financial statements, the Bank submitted constitutional claim to Constitutional Court of Croatia against decision of Supreme court which verified the Decision of Commercial Court against all involved banks.
The decision of the Constitutional Court on the lawsuits of the banks was made on 03.02.2021 and all banks’ objections were rejected. The decision does not affect the existing legal position of the bank, provisioning approach and the amount of provisions at balance sheet date, because it was just a confirmation of the already existing Supreme and High Commercial Court decisions back in 2018, meaning that it was already taken into consideration for year 2018. and 2020. respectively.
Events after balance sheet date explained above do not constitute significant event that requires adjustment to financial statements of the Bank.

## Appendix 1 – Forms according to CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK)***

Pursuant to the Decision of the Croatian National Bank's on structure and content of bank's annual financial statements (NN 42/2018 and NN 122/2020) bellow we present the required forms for the Bank for the year ended 31 December 2020 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies is given in the notes to the financial statements. Information important for better understanding of certain positions of the balance sheet, profit and loss account, changes in equity as well as cash flow statement are also included in the notes.

Reconciliation between forms presented below and primary financial statements is presented in Appendix 2.

**Form "Statement of financial position (Balance sheet)" As at 31 December 2020**

| **Sberbank d.d.** | | **MB: 01260405** | |
|---|---|---|---|
| **Statement of financial position (Balance sheet) as at 31 December 2020 – Non-consolidated** | | **OIB: 78427478595** | |
| **Position** | **Position name** | | |
| | **Assets** | **31 December 2020** | **31 December 2019** |
| **1.** | **Cash, cash balances at central banks and other demand deposits (from 2. to 4.)** | **1,845,411,469** | **1,994,186,010** |
| 2. | Cash on hand | 202,085,898 | 188,002,706 |
| 3. | Cash balances at central banks | 1,225,558,829 | 1,670,917,293 |
| 4. | Other demand deposits | 417,766,742 | 135,266,011 |
| **5.** | **Financial assets held for trading (from 6. to 9,)** | **98,713,799** | **135,054,346** |
| 6. | Derivatives | 2,676,487 | 2,041,920 |
| 7. | Equity instruments | - | - |
| 8. | Debt securities | 96,037,312 | 133,012,426 |
| 9. | Loans and advances | - | - |
| **10.** | **Non-trading financial assets mandatorily at fair value through profit or loss (from 11. to 13.)** | **61,228,476** | **86,682,176** |
| 11. | Equity instruments | 12,245,695 | 17,096,223 |
| 12. | Debt securities | 48,982,781 | 69,585,953 |
| 13. | Loans and advances | - | - |
| **14.** | **Financial assets designated at fair value through profit or loss (15. + 16.)** | **-** | **-** |
| 15. | Debt securities | - | - |
| 16. | Loans and advances | - | - |
| **17.** | **Financial assets at fair value through other comprehensive income (from 18. to 20.)** | **770,684,878** | **790,525,781** |
| 18. | Equity instruments | 141,000 | 141,000 |
| 19. | Debt securities | 770,543,878 | 790,384,781 |
| 20. | Loans and advances | - | - |
| **21.** | **Financial assets at amortised cost (22. + 23.)** | **8,024,628,433** | **7,778,231,506** |
| 22. | Debt securities | 18,915,309 | 13,244,775 |
| 23. | Loans and advances | 8,005,713,124 | 7,764,986,731 |
| **24.** | **Derivatives – Hedge accounting** | **-** | **-** |
| **25.** | **Fair value changes of hedged items in portfolio hedge of interest rate risk** | **-** | **-** |
| **26.** | **Investments in subsidiaries, joint ventures and associates** | **-** | **-** |
| **27.** | **Tangible assets** | **106,625,182** | **119,086,798** |
| **28.** | **Intangible assets** | **100,132,288** | **76,333,155** |
| **29.** | **Tax assets** | **28,742,150** | **40,664,422** |
| **30.** | **Other assets** | **21,600,327** | **25,667,195** |
| **31.** | **Non-current assets and disposal groups classified as held for sale** | **-** | **-** |
| 32. | **TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)** | **11,057,767,002** | **11,046,431,389** |

*(All amounts are expressed in HRK)*

**Form "Statement of financial position (Balance sheet)" As at 31 December 2020 (continued)**

| | Liabilities | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **33.** | **Financial liabilities held for trading (from 34. to 38.)** | **2,456,202** | **2,292,138** |
| 34. | Derivatives | 2,456,202 | 2,292,138 |
| 35. | Short positions | - | - |
| 36. | Deposits | - | - |
| 37. | Debt securities issued | - | - |
| 38. | Other financial liabilities | - | - |
| **39.** | **Financial liabilities designated at fair value through profit or loss (from 40. to 42.)** | | **-** |
| 40. | Deposits | - | - |
| 41. | Debt securities issued | - | - |
| 42. | Other financial liabilities | - | - |
| **43.** | **Financial liabilities measured at amortised cost (from 44. to 46.)** | **9,666,094,048** | **9,656,555,449** |
| 44. | Deposits | 9,591,056,929 | 9,572,811,249 |
| 45. | Debt securities issued | - | - |
| 46. | Other financial liabilities | 75,037,119 | 83,744,200 |
| **47.** | **Derivatives – Hedge accounting** | **-** | **-** |
| **48.** | **Fair value changes of the hedged items in portfolio hedge of interest rate risk** | **-** | **-** |
| **49.** | **Provisions** | **91,525,399** | **60,030,420** |
| **50.** | **Tax liabilities** | **-** | **-** |
| **51.** | **Share capital repayable on demand** | **-** | **-** |
| **52.** | **Other liabilities** | **121,575,477** | **117,782,180** |
| **53.** | **Liabilities included in disposal groups classified as held for sale** | | **-** |
| **54.** | **TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)** | **9,881,651,126** | **9,836,660,187** |
| | **Equity** | | |
| **55.** | **Capital** | **615,623,000** | **615,623,000** |
| **56.** | **Share premium** | **915,045,100** | **915,045,100** |
| **57.** | **Equity instruments issued other than capital** | **-** | **-** |
| **58.** | **Other equity** | **-** | **-** |
| **59.** | **Accumulated other comprehensive income** | **14,829,688** | **12,824,160** |
| **60.** | **Retained earnings** | **(354,032,129)** | **(440,922,269)** |
| **61.** | **Revaluation reserves** | **-** | **-** |
| **62.** | **Other reserves** | **20,311,070** | **20,311,070** |
| **63.** | **( - ) Treasury shares** | **-** | **-** |
| **64.** | **Profit or loss attributable to owners of the parent** | **(35,660,853)** | **86,890,141** |
| **65.** | **( - ) Interim dividends** | **-** | **-** |
| **66.** | **Minority interest [Non-controlling interests]** | **-** | **-** |
| **67.** | **TOTAL EQUTIY (from 55. to 66.)** | **1,176,115,876** | **1,209,771,202** |
| **68.** | **TOTAL EQUITY AND LIABILITIES (54. + 67.)** | **11,057,767,002** | **11,046,431,391** |

## Appendix 1 – Forms according to CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK)***

**Form "Income statement" for the year ended 31 December 2020**

| **Sberbank d,d,<br>Income statement for the year ended 31 December 2020 - Non-consolidated** | | **MB: 01260405<br>OIB: 78427478595** | |
|---|---|---|---|
| **Position** | **Position name** | **2020** | **2019** |
| 1. | Interest income | 334,494,485 | 345,322,779 |
| 2. | (Interest expenses) | (62,329,937) | (71,580,712) |
| 3. | (Expenses on share capital repayable on demand) | - | - |
| 4. | Dividend income | - | - |
| 5. | Fee and commission income | 81,908,034 | 88,028,863 |
| 6. | (Fee and commission expenses) | (24,865,010) | (24,627,375) |
| 7. | Gains or (-) losses on derecogn, of financial assets and liab, not measured at fair value through profit or loss, net | 442,020 | 102,600 |
| 8. | Gains or (-) losses on financial assets and liabilities held for trading, net | 1,225,088 | 19,442,451 |
| 9. | Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net | (28,410,995) | 7,157,541 |
| 10. | Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net | - | - |
| 11. | Gains or (-) losses from hedge accounting, net | - | - |
| 12. | Exchange differences [gain or ( - ) loss], net | 10,781,591 | 5,337,940 |
| 13. | Gains or (-) losses on derecognition of non-financial assets, net | 702,626 | 1,213,927 |
| 14. | Other operating income | 3,081,018 | 11,889,521 |
| 15. | (Other operating expenses) | (735,163) | (1,526,539) |
| **16.** | **TOTAL OPERATING INCOME, NET (1. – 2. – 3. + 4. + 5. – 6. + from 7. to 14. – 15.)** | **316,293,757** | **380,760,996** |
| 17. | (Administrative expenses) | (168,960,629) | (175,805,461) |
| 18. | (Cash contributions to resolution funds and deposit guarantee schemes) | (18,372,281) | (15,958,284) |
| 19. | (Depreciation) | (35,552,802) | (35,601,452) |
| 20. | Modification gains or (-) losses, net | - | - |
| 21. | (Provisions or (-) reversal of provisions, net | (30,624,334) | (22,585,535) |
| 22. | (Impairment or (-) reversal of impairment on financial assets, not measured at fair value through profit or loss) | (85,736,585) | (21,149,260) |
| 23. | ( Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates) | - | - |
| 24. | (Impairment or (-) reversal of impairment on non-financial assets) | (1,225,945) | (564,805) |
| 25. | Negative goodwill recognised in profit or loss | - | - |
| 26. | Share of the profit or (-) loss of investments in subs,, JV and associates accounted for using the equity method | - | - |
| 27. | Profit or (-) loss from non-current assets and disp, groups class, as held for sale not qualifying as disc, op, | - | - |
| **28.** | **PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (16. – 17. to 19. +20.– from 21. to 24. + from 25. to 27.)** | **(24,178,819)** | **109,096,197** |
| 29. | (Tax expense or (-) income related to profit or loss from continuing operations) | (11,482,034) | (22,206,056) |
| **30.** | **PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (28. – 29.)** | **(35,660,853)** | **86,890,141** |
| **31.** | **Profit or (-) loss after tax from discontinued operations (32. – 33.)** | **-** | **-** |
| 32. | Profit or (-) loss before tax from discontinued operations | - | - |
| 33. | (Tax expense or (-) income related to discontinued operations) | | - |
| **34.** | **PROFIT OR (-) LOSS FOR THE YEAR (30. + 31.; 35. + 36.)** | **(35,660,853)** | **86,890,141** |
| 35. | Attributable to minority interest [non-controlling interests] | - | - |
| 36. | Attributable to owners of the parent | - | - |

## Appendix 1 – Forms according to CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK)***

**Form 'Statement of comprehensive income' for the year ended 31 December 2020**

| | | | |
|---|---|---|---|
| **Sberbank d,d,** | | **MB: 01260405** | |
| **Statement of comprehensive income for the year ended 31 December 2020 - Non-consolidated** | | **OIB: 78427478595** | |
| | | **2020** | **2019** |
| 1. | **Profit or (-) loss for the year** | **(35,660,853)** | **86,890,141** |
| 2. | **Other comprehensive income 3. + 15.)** | **2,005,528)** | **269,959** |
| 3. | **Items that will not be reclassified to profit or loss (from 4. to 10. + 13. + 14.)** | - | - |
| 4. | Tangible assets | - | - |
| 5. | Intangible assets | - | - |
| 6. | Actuarial gains or (-) losses on defined benefit pension plans | - | - |
| 7. | Non-current assets and disposal groups held for sale | - | - |
| 8. | Share of other recognised income and expense of entities accounted for using the equity method | - | - |
| 9. | Fair value changes of equity instruments measured at fair value through other comprehensive income, net | - | - |
| 10. | Gains or ( - ) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net | - | - |
| 11. | Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument] | - | - |
| 12. | Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument] | - | - |
| 13. | Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk | - | - |
| 14. | Income tax relating to items that will not be reclassified | - | - |
| **15.** | **Items that may be reclassified to profit or loss (from 16. to 23.)** | **2,005,528** | **269,959** |
| 16. | Hedge od net investments in foreign operation (effective portion) | - | - |
| 17. | Foreign currency translation | - | - |
| 18. | Cash flow hedges [effective portion] | - | - |
| 19. | Hedging instruments [not designated elements] | - | - |
| 20. | Debt instruments at fair value through other comprehensive income | 2,445,766 | 329,218 |
| 21. | Non-current assets and disposal groups held for sale | - | - |
| 22. | Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates | - | - |
| 23. | Income tax relating to items that may be reclassified to profit or (-) loss | (440,238) | (59,259) |
| **24.** | **Total comprehensive income for the year (1.+2.; 25. + 26.)** | **(33,655,325)** | **87,160,099** |
| 25. | Attributable minority interest (Non-controlling interest) | - | - |
| 26. | Attributable to owners of the parent | - | - |

## Appendix 1 – Forms according to CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK)***

**Form 'Statement of changes in shareholders' equity for the year ended 31 December 2020**

| **Sberbankd.d. 'Statement of changes in shareholders' equity for the year ended 31 December 2020 – Non-consolidated** | | | | | | **MB: 01260405 OIB: 78427478595** | | | | | | | **Minority interests** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Sources of equity changes** | **Capital** | **Share premium** | **Equity instruments issued other than Capital** | **Other equity** | **Accumulated other comprehensive income** | **Retained earnings** | **Revaluation reserves** | **Other reserves** | **Treasury shares** | **Profit (-) loss attributable to owners of the partner** | **(-) Interim dividends** | **Accumulated other comprehensive income** | **Other income** | **Total** |
| **1.** | **Opening balance [before restatement]** | **615,623,000** | **915,045,100** | **-** | **-** | **12,824,160** | **(440,922,269)** | **-** | **20,311,070** | **-** | **86,890,141** | **-** | **-** | **-** | **1,209,771,202** |
| 2. | Effects of correction of errors | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. | Effects of change in accounting policies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **4.** | **Opening balance [current period]** | **615,623,000** | **915,045,100** | **-** | **-** | **12,824,160** | **(440,922,269)** | **-** | **20,311,070** | **-** | **86,890,141** | **-** | **-** | **-** | **1,209,771,202** |
| 5. | Issuance of ordinary shares | | | | | | | | | | | | | | |
| 6. | Issuance of preference shares | | | | | | | | | | | | | | |
| 7. | Issuance of other equity instruments | | | | | | | | | | | | | | |
| 8. | Exercise or expiration of other equity instruments issues | | | | | | | | | | | | | | |
| 9. | Conversion of debt equity | | | | | | | | | | | | | | |
| 10. | Capital reduction | | | | | | | | | | | | | | |
| 11. | Dividends | | | | | | | | | | | | | | |
| 12. | Sale or cancellation of treasury shares | | | | | | | | | | | | | | |
| 13. | Purchase of treasury shares | | | | | | | | | | | | | | |
| 14. | Reclassification of financial instruments from equity to liability | | | | | | | | | | | | | | |
| 15. | Reclassification of financial instruments from liability to equity | | | | | | | | | | | | | | |
| 16. | Transfers among components of equity | | | | | | 86,890,141 | | | | (86,890,141) | | | | - |
| 17. | Equity increase or (-) decrease resulting from business combinations | | | | | | | | | | | | | | |
| 18. | Share based payments | | | | | | | | | | | | | | |
| 19. | Other increase or (-) decrease in equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20. | Total comprehensive income for the year | | | | | 2,005,528 | | | | | (35,660,853) | | | | (33,655,325 |
| **21.** | **Closing Balance [current period]** | **615,623,000** | **915,045,100** | **-** | **-** | **14,829,688** | **(354,032,129)** | **-** | **20,311,070** | **-** | **(35,660,853)** | **-** | **-** | **-** | **1,176,115,877** |

## Appendix 1 – Forms according to CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK)***

Form **'Statement of changes in shareholders' equity for the year ended 31 December 2019**

| **Sberbank d.d.**<br>**'Statement of changes in shareholders' equity for the year ended 31 December 2019 – Non-consolidated** | | | | | | **MB:01260405**<br>**OIB: 78427478595** | | | | | | | **Minority interests** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Sources of equity changes** | **Capital** | **Share premium** | **Equity instruments issued other than Capital** | **Other equity** | **Accumulated other comprehensive income** | **Retained earnings** | **Revaluation reserves** | **Other reserves** | **Treasury shares** | **Profit (-) loss attributable to owners of the partner** | **(-) Interim dividends** | **Accumulated other comprehensive income** | **Other income** | **Total** |
| **1.** | **Opening balance [before restatement]** | **615,623,000** | **915,045,100** | **-** | **-** | **12,554,202** | **(508,819,656)** | **20,311,070** | **-** | **-** | **67,897,387** | **-** | **-** | **-** | **1,122,611,102** |
| 2. | Effects of correction of errors | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. | Effects of change in accounting policies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **4.** | **Opening balance [current period]** | **615,623,000** | **915,045,100** | **-** | **-** | **12,554,202** | **(508,819,656)** | **20,311,070** | **-** | **-** | **67,897,387** | **-** | **-** | **-** | **1,122,611,102** |
| 5. | Issuance of ordinary shares | | | | | | | | | | | | | | |
| 6. | Issuance of preference shares | | | | | | | | | | | | | | |
| 7. | Issuance of other equity instruments | | | | | | | | | | | | | | |
| 8. | Exercise or expiration of other equity instruments issues | | | | | | | | | | | | | | |
| 9. | Conversion of debt equity | | | | | | | | | | | | | | |
| 10. | Capital reduction | | | | | | | | | | | | | | |
| 11. | Dividends | | | | | | | | | | | | | | |
| 12. | Sale or cancellation of treasury shares | | | | | | | | | | | | | | |
| 13. | Purchase of treasury shares | | | | | | | | | | | | | | |
| 14. | Reclassification of financial instruments from equity to liability | | | | | | | | | | | | | | |
| 15. | Reclassification of financial instruments from liability to equity | | | | | | | | | | | | | | |
| 16. | Transfers among components of equity | | | | | | 67,897,387 | | | | (67,897,387) | | | | - |
| 17. | Equity increase or (-) decrease resulting from business combinations | | | | | | | | | | | | | | |
| 18. | Share based payments | | | | | | | | | | | | | | |
| 19. | Other increase or (-) decrease in equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20. | Total comprehensive income for the year | | | | | 269,958 | | | | | 86,890,141 | | | | 87,161,099 |
| **21.** | **Closing Balance [current period]** | **615,623,000** | **915,045,100** | **-** | **-** | **12,824,160** | **(440,922,269)** | **20,311,070** | **-** | **-** | **86,890,141** | **-** | **-** | **-** | **1,209,771,202** |

# Appendix 1 – Forms according to CNB requirements

## For the period from 1 January 2020 to 31 December 2020

*(All amounts are expressed in HRK)*

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**Form 'Cash flow statement' for the year ended 31 December 2020**

| | | | |
|---|---|---|---|
| **Sberbank d.d.** | **MB: 01260405<br>OIB: 78427478595** | | |
| **'Cash flow statement' for the year ended 31 December 2020 - Non-consolidated** | | **2020** | **2019** |
| | **OPERATING ACTIVITIES FOR INDIRECT METHOD** | | |
| 9. | Profit/(loss) before tax | (24,178,819) | 109,096,197 |
| 10. | Impairment losses and provisions | 116,360,919 | 43,734,796 |
| 11. | Depreciation | 35,552,801 | 35,601,452 |
| 12. | Net unrealized (profit)/loss from financial assets and liabilities through profit and loss | 29,872,895 | 2,682,969 |
| 13. | (Gains)/losses from sale of tangible assets | - | - |
| 14. | Other (gains)/losses | (11,484,215) | (6,551,867) |
| | **Cash flow from operating activities in operating assets and liabilities** | | |
| 15. | Deposits with the Croatian National Bank | 189,970,864 | (138,374,264) |
| 16. | Deposits with banks and loans to financial institutions | 82,060,791 | (25,506,408) |
| 17. | Loans to other customers | (604,340,131) | (566,978,032) |
| 18. | FVOCI Securities and other financial instruments | - | - |
| 19. | Securities and other financial instruments held for trading | 36,340,548 | (31,266,000) |
| 20. | Securities and other financial instruments which are not traded, but are designated at fair value through profit and loss | 25,453,700 | (86,682,176) |
| 21. | Securities and other financial instruments which are measured at fair value through profit and loss | - | - |
| 22. | Securities and other financial instruments at amortised cost | (5,670,533) | (13,244,775) |
| 23. | Other assets | 15,989,139 | 18,219,293 |
| 24. | Deposits at financial institutions | (408,390,649) | 112,409,711 |
| 25. | Demand deposits from customers | 707,230,764 | 659,007,630 |
| 26. | Savings deposits | (44,432,384) | 11,412,187 |
| 27. | Term deposits | (390,610,541) | 353,028,410 |
| 28. | Derivative liabilities and other liabilities for sale | 164,064 | 1,608,626 |
| 29. | Other liabilities | (14,057,538) | 92,765,675 |
| 30. | Interest received from operating activities [indirect method] | - | - |
| 31. | Received dividends [indirect method] | - | - |
| 32. | Paid interest from operating activities [indirect method] | - | - |
| 33. | Income tax paid | (11,482,034) | (22,206,056) |
| **34.** | **Net cash flow from operating activities (from 1. to 33.)** | **(275,650,359)** | **548,757,368** |
| | **Investment activities** | | |
| 35. | Receipt from sale/(payment for buying) of tangible and intangible assets | (46,890,318) | (118,645,226) |
| 36. | Receipt from sale/(payment for buying) of investments in subsidiaries, associates and joint venture | - | - |
| 37. | Receipt from sale/(payment for buying) of securities and other financial instruments held to maturity | 21,846,431 | (255,686,675) |
| 38. | Dividend income | - | - |
| 39. | Other receipts/(payments) from investing activities | - | - |
| 40. | **Net cash flow from investing activities (from 35. to 39.)** | **(25,043,887)** | **(374,331,901)** |
| | **Financial activities** | | |
| 41. | Net increase /(decrease) of borrowings | 151,498,551 | 15,083,804 |
| 42. | Net increase /(decrease) of issued debt securities | - | - |
| 43. | Net increase /(decrease) of subordinated and hybrid instruments | 2,949,939 | 52,598,160 |
| 44. | Receipts from transmitted share capital | - | - |
| 45. | (Dividends paid) | - | - |
| 46. | Other receipts/(payments) from operating activities | - | - |
| **47.** | **Net cash flow from financial activities (from 41. to 46.)** | **154,448,490** | **67,681,964** |
| **48.** | **Net increase/(decrease) in cash and cash equivalents ( 34. + 40. + 47.)** | **(146,245,756)** | **242,107,431** |
| **49.** | **Cash and cash equivalents at beginning of the year** | **1,994,186,010** | **1,748,689,222** |
| 50. | Effect of changes in foreign exchange rates on cash and cash equivalents | (2,528,785) | 3,389,357 |
| **51.** | **Cash and cash equivalents at the end of the year** | **1,845,411,469** | **1,994,186,010** |

*(All amounts are expressed in HRK)*

### Note 'Off balance sheet items' as at 31 December 2020 - Non-consolidated

| | | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| 1. | Guarantees | 395,668,068 | 361,165,190 |
| 2. | Letters of credit | 12,875,386 | 3,556,879 |
| 3. | Bills of exchange | - | - |
| 4. | Undrawn commitments | 497,792,150 | 242,491,460 |
| 5. | Other risk off-balance items | - | - |
| 6. | Futures | - | - |
| 7. | Options | - | - |
| 8. | Swap | - | - |
| 9. | Forwards | 2,448,656,347 | 4,781,387,968 |
| 10. | Other derivatives | - | - |

## Appendix 2 - Differences between financial statements and CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK '000)***

| ANNUAL REPORT (AR) | | From „Balance sheet" (CNB) | | DIFFERENCE | EXPLANATION |
|---|---|---|---|---|---|
| Cash and balance with the Croatian National Bank | 1,900,090 | Cash, cash balances at central banks and other demand deposits | 1,845,411 | 54,679 | 54,679; CNB – Financial assets at amortised cost |
| Placements with and loans to banks | 972,182 | | - | 972,182 | 972,182; CNB – Financial assets at amortised cost |
| Fair value through other comprehensive income financial asset | 770,685 | Financial assets at fair value through other comprehensive income | 770,685 | - | - |
| Debt securities held for trading<br>Derivative financial instruments – positive fair value<br>Non-trading financial assets mandatory at fair value through profit or loss | 96,037<br>2,676<br>61,228 | Financial assets held for trading | 98,713 | - | - |
| | | Non-trading financial assets mandatory at fair value through profit or loss | 61,228 | | |
| | | Financial assets at fair value through profit or loss | - | | - |
| Loans and advances to customers | 6,997,768 | Financial assets at amortised cost | 8,024,629 | (1,026,861) | (54,679); AR – Cash and balance with CNB<br>(972,182); AR – Placements with and loans to banks |
| | | Derivatives – Hedge accounting | - | | - |
| | | Fair value changes of the hedged items in portfolio hedge of interest rate risk | - | | - |
| | | Investment in subsidiaries, joint ventures and associates | - | | - |
| Property and equipment | 119,718 | Tangible assets | 106,625 | 13,093 | 13,093; CNB – Intangible assets |
| Intangible assets | 87,040 | Intangible assets | 100,133 | (13,3 | (13,093); AR – Tangible assets |
| Other assets | 21,601 | Other assets | 21,601 | - | - |
| Current tax assets<br>Deferred tax assets | 28,742 | Tax assets | 28,742 | - | - |
| **TOTAL ASSETS** | **11,057,767** | **TOTAL ASSETS** | **11,057,767** | **-** | **-** |
| Deposits from banks<br>Deposits from customers<br>Borrowings<br>Subordinated liabilities | 638,235<br>8,009,916<br>739,266<br>203,640 | Financial liabilities measured at amortised cost | 9,666,094 | (75,037) | (75,037); AR – Other liabilites |
| Financial liabilities at fair value through profit or loss | 2,456 | Financial liabilities held for trading | 2,456 | - | - |
| | | Financial liabilities designated at fair value through profit or loss | | | - |
| | | Derivatives – Hedge accounting | | | - |
| | | Fair value changes of the hedged items in portfolio hedge of interest rate risk | | | - |
| Provision for liabilities and charges | 78,260 | Provisions | 91,525 | (13,265) | (13,265); AR – Other liabilities |
| | | Tax liabilities | | | - |
| | | Share capital repayable on demand | | | - |
| Other liabilities | 209,878 | Other liabilities | 121,576 | 88,302 | 13,265; CNB – Provisions<br>75,037; CNB – Financial liabilities measured at amor. cost |
| **TOTAL LIABILITIES** | **9,881,651** | **TOTAL LIABILITiES** | **9,881,651** | **-** | **-** |
| Share capital | 615,623 | Capital | 615,623 | - | - |
| Share premium | 915,045 | Share premium | 915,045 | - | - |
| | | Equity instruments issued other than capital | | - | - |
| | | Other equity | | - | - |
| Fair value reserve | 14,830 | Accumulated other comprehensive income | 14,830 | - | - |
| Accumulated losses | (389,693) | Retainted earnings<br>Profit or loss attributable to owners of the parent | (354,032)<br>(35,661) | - | - |
| | | Revaluation reserves | | | - |
| Other reserves | 20,311 | Other resewrves | 20,311 | - | - |
| | | ( - ) Treasury shares | - | - | - |
| | | ( - ) Interim dividends | - | - | - |
| | | Minority interest [non-controlling interest] | - | - | - |
| **TOTAL EQUITY** | **1,176,116** | **TOTAL EQUITY** | **1,176,116** | **-** | **-** |
| **TOTAL LIABILITIES AND EQUITY** | **11,057,767** | **TOTAL LIABILITIES AND EQUITY** | **11,057,767** | **-** | **-** |

## Appendix 2 - Differences between financial statements and CNB requirements

## For the period from 1 January 2020 to 31 December 2020

***(All amounts are expressed in HRK '000)***

| ANNUAL REPORT (AR) | | Form „Income statement" (CNB) | | DIFFERENCE | EXPLANATION |
|---|---|---|---|---|---|
| Interest and similar income | 330,365 | Interest income | 334,495 | (4,130) | (2,476); AR - Gains or (-) losses on financial assets and liabilities held for trading, net (1,654); AR - Gains or (-) losses on financial assets mandatorily at fair value through profit or loss, net |
| Interest expense and similar charges | (62,330) | (Interest expenses) | (62,330) | - | - |
| Net interest income | 268,035 | | 272,165 | (4,130) | - |
| | | (Expenses on share capital repayable on demand) | - | - | - |
| | | Dividend income | - | - | - |
| Fee and commission income | 81,908 | Fee and commission income | 81,908 | - | - |
| Fee and commission expenses | (24,865) | (Fee and commission expense) | (24,865) | - | - |
| Net fee and commission income | 57,043 | | 57,043 | - | - |
| Net gains and losses on financial instruments at fair value through profit or loss, result from foreign exchange trading and translation of monetary assets and liabilities | (12,274) | Gains or (-) losses on derecognition of financial assets and liabilities not measuredat fair value through profit or loss, net | 442 | 4,130 | 4,130; CNB – Interest income |
| | | Gains or (-) losses on financial assets and liabilities held for trading, net | 1,225 | | |
| | | Gains or (-) losses on financial assets mandatorily at fair value through profit or loss, net | (28,411) | | |
| Net gains and losses from FVOCI investment securities | 442 | Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net | - | | |
| | | Gains or (-) losses from hedge accounting, net | - | | |
| | | Exchange differences [gain or (-) loss], net | 10,782 | | |
| | - | Gains or (-) losses on derecognition of non-financial assets, net | 703 | (703) | (703); AR – Other operating income/(expenses) |
| Other operating income | 3,784 | Other operating income | 3,081 | 703 | 703; CNB - Gains or (-) losses of non-financial assets, net |
| Other operating (expense) | - | (Other operating expenses) | (736) | 736 | 736; AR – Operating expenses |
| Net trading and other income | (8,048) | | (12,914) | 4,866 | |
| Operating income | 317,030 | Total operating income | 316,294 | 736 | - |
| Operating expenses<br>Personnel expenses | (123,314)<br>(100,308) | (Administrative expenses)<br>(Depreciation)<br>(Cash contributions to resolution funds and deposit guarantee schemes) | (168,961)<br>(35,553)<br>(18,372) | (736) | (736); CNB – Other operating expenses |
| Impairment losses and provisions | (117,587) | Modification gains or (-) losses, net | - | | - |
| | | (Provisions or (-) reversal of provisions) | (30,624) | | |
| | | (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss) | (85,737) | | |
| | | (Impairment or (-) reversal of impairment of investments in | - | | |

| | | | | | |
|---|---|---|---|---|---|
| | | subsidiaries, joint ventures and associates) | | | |
| | | (Impairment or (-) reversal of impairment on non-financial assets) | (1,226) | | |
| | | Negative goodwill recognised in profit or loss | - | | |
| | | Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method | - | | |
| | | Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations | - | | |
| Profit/(loss) before tax | (24,179) | Profit or (-) loss before tax from continuing operations | (24,179) | - | - |
| Income tax | (11,482) | (Tax expense or (-) income related to profit or loss from continuing operations) | (11,482) | - | - |
| | | Profit or (-) loss after tax from continuing operations | (35,661) | - | - |
| | | Profit or ( - ) loss after tax from discontinued operations | - | - | - |
| | | Profit or (-) loss before tax from discontinued operations | - | - | - |
| | | (Tax expense or ( - ) income related to discontinued operations) | - | - | - |
| Profit/(loss) for the year | (35,661) | Profit or ( - ) loss for the year | (35,661) | - | - |