SBERBANK d.d.
Managing board

To the GENERAL MEETING OF SHAREHOLDERS

SUMMARIZED STATUS REPORT OF THE MANAGING BOARD

INTRODUCTION

In accordance with Article 250.a of the Companies Act the Managing board hereby submits to the General Meeting of Shareholders this Summarized Status Report of the Managing board.

The Summarized Status Report refers to the year 2020 and includes subsequent business changes and all relevant events which took place in the period from January 1, 2021 till the day of report creation.

This report shows the development and the operative results of Sberbank d.d. (hereinafter: the Bank) in the aforementioned period and the financial status of the Bank, together with a description of the main risks the Bank is exposed to within its business operations. The report provides a balanced outline and an in-detail analysis of the development and the operative results of the Bank. The report closes with a presentation of the position of the Bank given the scope and complexity of its business operations. As required for the comprehension of the overall business development, its results and financial status the analysis also includes financial and other key figures regarding individual banking operations, including ecology and environment report and a report on the employees of the Bank. In the analysis the figures stated in the annual financial report are furthermore outlined.
The Report also details on the main business events which occurred in the first months of 2021, furthermore the projections of the future operational development of the Bank, the activities of the Bank in the segment research and development, an information on the acquisition of own shares and finally an information on the branch network. The report also provides information on the utilization of the financial instruments, alongside with data relevant for the assessment of the assets of the Bank, its liabilities and general financial status, the Income statement, the objectives regarding risk management and various business policies, including the measures taken for risk hedging within the most relevant types of banking transactions, as well as the exposure of the Bank to various types of business risks, such as price risk, credit risk, liquidity risk and cash flow risk.

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 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.

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.

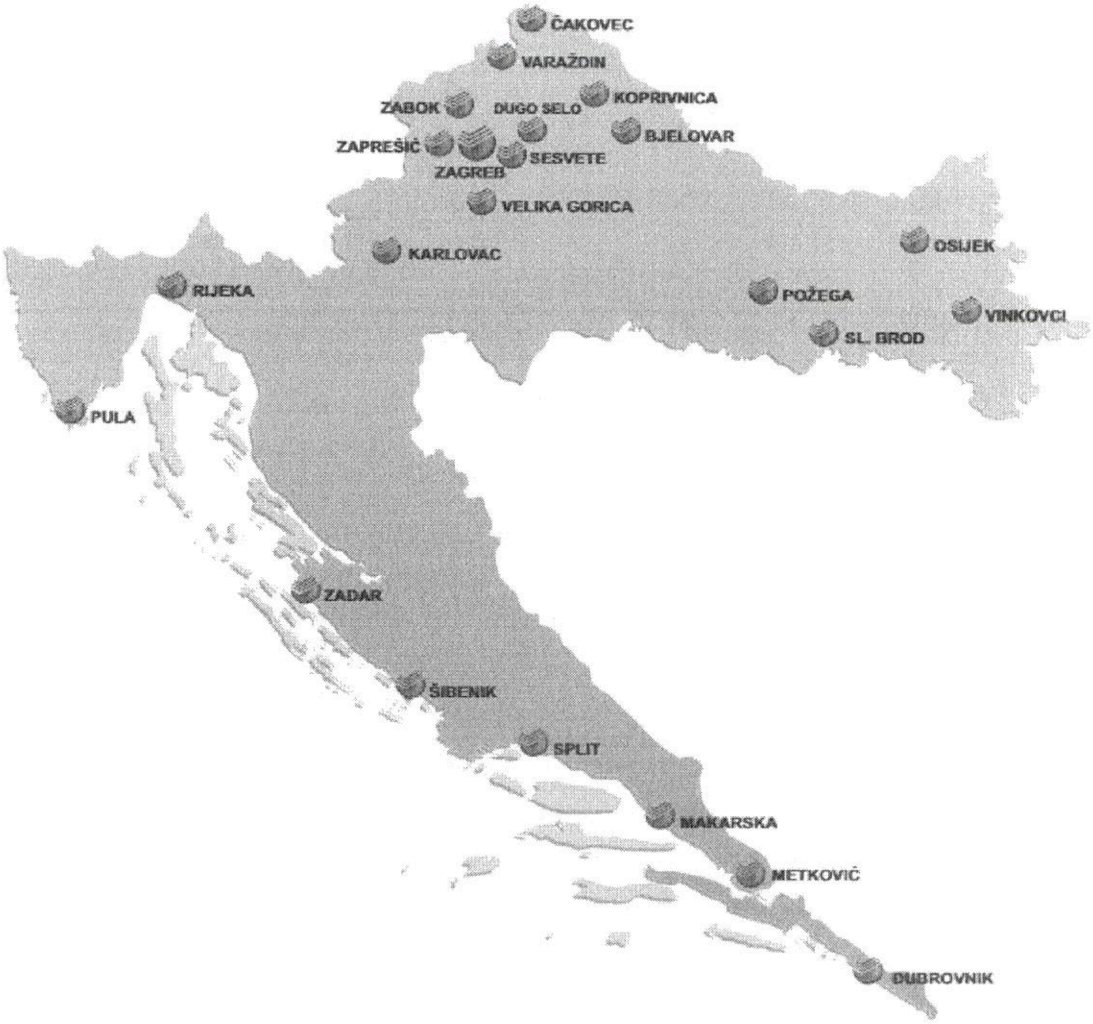
COVID-19 related costs increased: maintenance, post activities and collection activities. Opex stringent governance model and savings plan decreased fixed cost and contributed to stability and profitable business model from customer business. Biggest savings were realized in marketing activities, travel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



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**

INCOME STATEMENT
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
		(33,655)	**87,160**

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**

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)*

RISK MANAGEMENT

INTRODUCTION

This part 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.

INSTRODUCTION (continued)

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

- **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.

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.

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)

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.

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.

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).

RISK MEASUREMENT (continued)

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.

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 %).

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 %).

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%).

Credit quality per class of financial assets

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.

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**

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**

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**

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.

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).

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**

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

FORBEARANCE EXPOSURE

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

HRK thousand		Forbearance status as of 31 Dec 2020	
	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

HRK thousand		Forbearance status as of 31 Dec 2019	
	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

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

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%**

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 these 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)**

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)**

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.

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%.

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

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.

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.

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.

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.

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.

Currency risk (continued)

	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**

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)

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.

OPERATIONAL RISK MANAGEMENT (continued)

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.

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.

Ecology & environment

Within its business operations the Bank is consequently and permanently engaged in the implementation of all relevant environmental protection measures. The Bank is monitoring all relevant changes in this area and adapting its business activities to these changes.
In environmental issues the Bank focuses both on own business activities, but also on the business activities of the Bank's customers. Therefore, in projects which are financed by the Bank special attention is paid to environmental and ecological interests as well.

Information on the acquisition of own shares

Within the stated period from this Report the Bank did not acquire, nor does it hold own shares.

EXPECTED GROWTH OF THE BANK IN FUTURE

The Sberbank Europe Group defined its strategic business priorities by year 2023, and on these priorities, Sberbank Croatia is building its own strategy, to enable further growth and development of the Bank with the aim of strengthening its overall position on the Croatian banking market.

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

I. Profitability boost, focusing on:
- margin improvement / focus on high margin products and business;
- self-sustainability with stable funding base, deposits build up and primary clients base;
- strengthening of the transaction business, increase in cross-sell potential & boost commision income;
- optimal capital allocation and strengthening the return on capital

II. Customer business growth, focusing on:
- targeted products and multi sales channels mix for customer and portfolio expansion
- service and quality improvements;
- strengthening the process and customer experience, supporting customer excellence and retention and channels enhancement;
- expansion of partnerships
- Innovative products and strong brand recognition

III. Digital Modern bank, focusing on:
- implementation of the digital banking platforms and digital transformation
- card business transformation
- easy, enjoyable customer experience
- IT system optimization and simplification of architecture

IV. Light bank/Efficiency, focusing on:
- process automation and robotization
- Business process Management
- cost optimization potential including the branch network efficiency projects and paperless banking

V. People/Organization, focusing on:
- talent acquisition and management;
- employee retention and key people and successor planning
- development and strengthening of the core competencies
- employee engagement enhancement

Common precondition for management of strategic pillars is **Risk Management**, focusing on collection efficiency strategies enhancements and risk appetite and optimizing the risk costs.

While still adapting to new reality of current ongoing crisis, strategic main goal remains improving operational efficiency.

Being universal bank with key focus on Retail and SME, the following strategic priorities have been defined, by business areas:

Retail
- development of modern digital banking solutions
- efficient and competitive product management - Innovation of products and

- communication - further strengthening and consolidation of the market position of the Sberbank brand
- increasing efficiency in Distribution Network but also in back office: Operations and Collections
- increasing the level of customer satisfaction
- further development of business partnerships and increase in sales as part of the business cooperation with the Bank's partners.

Small & Medium Enterprises (SMEs)

- intensify acquisition activities
- quick business processes and standardization: fast decision making and transparent customer processes
- service excellence
- increase number of primary customers and cross selling/share of wallet payments (packages)

Corporate

- expanding the cooperation with existing clients (share of wallet in the financing segment and payment transactions)
- high quality service & close client relationship
- trade finance and factoring business

These targets will also be supported by the activities of the **Global Markets** department, which will be focused on increasing sales activities, especially in the sale of derivative products, while simultaneously maintaining the market share on the domestic interbank market.

The focus will be on maintaining a high-quality client and portfolio structure in terms of risk exposure, following Risk Strategy that ensures that all material risks assumed in the context of the Bank's current and expected business activities are recognized at an early stage and effectively managed in order to ensure adequate risk adjusted return.

Managing board:

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