SBERBANK d.d. – u sanaciji, Zagreb

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Contents

Dear shareholders, clients and business partners!

On behalf of the Bank's resolution management board, allow us to present the most important information as well as events and circumstances that occurred after the balance sheet date, and up to the moment of compiling this report.

After the balance sheet date, the circumstances under which the Bank was operating have changed significantly. The geopolitical situation caused by Russia's invasion of Ukraine has led to significant difficulties in the Bank's operations, which has had a substantial impact on the Bank's liquidity position. At the end of February 2022, the liquidity position had deteriorated so much that it threatened the Bank's ability to meet its liabilities, possibly causing a complete shutdown of the operations of the Bank. Throughout this period, the Bank communicated clearly and transparently with the Croatian National Bank (CNB) and all other competent authorities.

On February 26, 2022, the Bank received clear messages from the then-owner Sberbank Europe AG and the then-Supervisory Board that they were unable to participate in resolving the problem and provide support for the Bank's recovery. Without delay, the Bank informed the CNB officially and in writing of its illiquidity and the existence of the circumstances stipulated in the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette Nos. 146/20 and 21/22), indicating that the Bank is failing or is likely to fail. After the European Central Bank also determined that the Bank was failing or was likely to fail due to its liquidity position, the Single Resolution Board urgently decided on a 48-hour moratorium, followed by a resolution scheme which was delivered to the CNB for its implementation in the Republic of Croatia. Based on the instructions of the Single Resolution Board, the CNB first adopted the decision on a moratorium of the payment of all liabilities of the Bank and then, on March 1, 2022, initiated the resolution proceedings over the Bank, applying a resolution instrument which was the sale of the shares of the Bank and the transfer of ownership to Hrvatska poštanska banka d.d. (HPB). The management of the Bank and the function of all its committees were taken over by the CNB and the resolution management board. The final resolution activities and the preparations for the change of the Bank's company name and the appointment of the regular committees of the Bank (such as the Supervisory and Management Board, etc.) by the new owner are currently pending.
The Bank has managed to a large degree to stabilize its operations, and all of its functions currently operate normally and regularly and the Bank is meetings all of its liabilities.

Please find below the key business figures for year 2021. and the Bank's financial statements, together with the auditor's report for the year 2021.

Paško Rakić	**Boris Bekavac**
Chairman of resolution Management Board	Member of resolution management Board

KEY FIGURES (overview)	2021
Balance sheet total	11,090
Deposits from customers	7,898
Gross loans to customers	7,465
Operating income	442
Operating expenses	308
Profit before tax	43
Number of employees	478
Number of branch-offices	30

Private Individual segment

Credit operations
In 2021, the activities in the PI lending segment were primarily focused on cash loans and maintaining the stability of the loan portfolio.
At the beginning of the year, the Bank presented the risk-based pricing model for cash loans, which implies the setting of the interest rate based on the client's risk profile, i.e. the definition of the interest rate using the Bank's internal rating model for credit risk assessment. In doing so, the Bank was guided by an adequate methodology for customer risk segmentation, as well as an adequate process that ensures transparency for the customer and the calculation of the loan price as early as when preparing an informative offer for the applicant. In addition to attractive cash loan offers, which resulted in an increase in the number of new clients and placements, the Bank also made efforts to retain the placements of existing clients. By proactively approaching its clients, the Bank regularly conducted top-up campaigns for loans by offering new loans to pre-selected clients. In addition to all the above, the reactive offer model was activated for clients who planned to close their loans. In the housing loan segment, the Bank launched two special offers during the year, i.e. special housing loan offers with highly favorable interest rates and financing conditions. Regarding the management of the existing portfolio, the Bank continuously sought to address the customers' applications and requests to align existing conditions (pricing) using the prescribed retention tools and processes. All these activities resulted in an increase in the loan portfolio of 5% compared to the previous year.

Transaction and deposit operations
The share of primary clients in 2021 increased by 7**%** compared to previous year as well as the number of arranged Green and Orange current account packages, which increased by almost 7%. This is the result of the campaign to acquire primary clients as part of the new "Member get member" program: all clients who referred a new client to the Bank who opened a current account package were rewarded with three months of free-of-charge use of the selected current account package. The result of these activities was partly reflected in the increase in the transaction account volume, which in 2021 increased by almost 6% compared to previous year.

Total liabilities, on the other hand, recorded a decline resulting primarily from the outflow of term deposits, which is a trend also shown on the market in general. This is mostly the result of the relatively low interest rate environment in the market, where clients find alternative investment channels that potentially generate slightly higher returns. Regardless of the negative trend in the term deposits, the Bank continued to offer attractive products and adopted certain retention measures with the aim of retaining and mitigating the drop in term deposits as much as possible.
Regular tranches of pre-approved overdraft facilities continued in the PI segment, which in 2021, along with a good sales result, resulted in an increase in the **total limit of the permitted overdraft facilities** of 12% and an increase in the total utilization of the limit of 13%, compared to the previous year.

Consequently, the approval of permitted overdrafts also increased the approval of the “Maestro in instalments” service and the utilization of the volume of this service, as evident in a 20% increase in fee income compared to 2020.

In the **utility bills payments**, in 2021 Bank achieved a growth of 4**%** compared to 2020**,** despite the general decline in the market in this particular segment of 10%. In this segment, the Bank, together with the points of sale of its partners Tisak and Konzum, holds a 46% share in the total market (bills paid in person) according to the number of paid bills. Such a result was greatly contributed to by the expansion of the service by introducing the payment executed via Visa payment cards (at the points of sale of Konzum) and the continuous promotion of this payment method.

Online services
In 2021, the digitalization of the Bank’s operations was further accelerated, with a focus on the new on-line banking platform for private individuals. This is a new digital platform that is primarily offered to the most active clients of the previous mobile and Internet banking applications who then became "early adapters" of the new platform. The new digital platform combines mobile and internet banking, bringing a new user experience in the form of improved display and easier use, aimed to improve the customers’ management of their finances. In addition to the functionalities that were supported on the previous system, the new on-line banking platform offers new functionalities that ensure greater competitiveness and visibility in the market. The number of users of online banking (private individuals) increased by 17% in late 2021, compared to 2020, of which more than 71% migrated to the new platform. The trend of increasing use of mobile banking as dominant digital channel has continued: in relation to the overall number of active users of the online banking service, 97% of them use mobile banking service. In 2021, the Bank implemented a new PSD2 dedicated interface which is fully aligned with the prevailing market standard (the NextGenPSD2 Berlin Group standard).

Card operations
There was an increase compared to 2020 in the use of cards in volume by 25% and in transactions by 28%, which shows the trend of using Maestro and MasterCards for purchases of smaller amounts also. A particularly large increase in the use of payment cards is evident when shopping online: 65% in terms of card volume and 50% in terms of the number of payment card transactions compared to previous year. As a result of card acceptance within the MBnet network at Konzum, as well as the growth of turnover at other merchants who have arranged the Bank’s POS service, acquiring turnover increased by 13%, while the number of transactions increased by 15%. The total number of issued cards increased by 9%, MasterCard credit cards increased by 11% and Maestro increased by 8%, compared to 2020.
In 2021, Bank made great efforts regarding the new retail credit card that was successfully launched in the last quarter of the year. In order to increase the security of online purchases and to protect the card holders, in 2021 the Bank introduced an online card transaction monitoring system provided by an external processing center. In addition, activities have been increased to motivate as many card holders as possible (especially those who buy online) to actively use the new online banking system, as it further simplifies the authorization of online payments and improves user experience.

Partnership
The Bank, in cooperation with its business partners, still offers a wide range of non-banking products: insurance products in cooperation with Triglav osiguranje d.d., investments in mutual funds in cooperation with InterCapital Asset Management d.o.o. and investments in voluntary pension funds in cooperation with the pension fund managed by Croatia osiguranje. In 2021, after completing the offer of non-banking products for private individuals, the focus was on expanding the offer of insurance products to sole traders and small businesses (Micro and SE segment), in line with market needs. For example, clients can now arrange the Triglav package property insurance for entrepreneurs - property insurance with additional coverage in case of earthquakes, accidents, downtimes and also liability insurance.

In the Bancassurance segment, in 2021 the Bank recorded an increase in total newly-arranged insurance premiums by 6% compared to the previous year, which is in line with the overall growth in insurance premiums in Croatia in 2021 compared to 2020. The growth of the premiums is accompanied by the growth of the number of insurance policies.

The **credit intermediary sales channel** continues to contribute to the Bank's overall result with a share in excess of 25% in the total volume of cash loans and a 15% share in the volume of housing loans.

In 2021, the **Bank@Work** unit continued its activities with intensified cooperation with the SME and Corporate Banking units, focusing on the Bank's clients in these segments and their employees, which resulted in a total share in the disbursed cash loans of 30%, in the disbursed housing loans of also 30% and in the share of current account packages of 32%.

Legal Entities segment
The operations of the **Micro customers** were also affected by the pandemics at the beginning of 2021, so the Bank continued to approve reprograms/moratoriums, in order to relieve clients of their monthly loan obligations, to enable continued uninterrupted operations. At the beginning of the year, the Bank introduced in its offer the Green and Orange account packages for Micro customers and small entrepreneurs; by consolidating several services and products within the package, the Bank enabled savings and optimization of the clients' operations. Also, the Bank enabled the opening of business accounts through a new process in the BPM application. As of mid-2021, it is possible to open business accounts online via the Bank's website, which made the Bank's service available outside the branch network.

The **SME business segment** is a strategic determinant of the Bank and in 2021 the acquisition activities were further intensified, which resulted in further growth of total placements of over 7% compared to 2020. The market situation caused by the Covid-19 pandemic continues to affect the client's operations and the Bank continues to support its clients through the currently available programs in cooperation with HBOR (Croatian Bank for Reconstruction and Development) and HAMAG BICRO (Croatian Agency for SMEs, Innovation and Investments). However, unlike the previous year, there are visible trends of recovery through increased business activity of clients, and in 2021 the Bank additionally started expanding cooperation with existing and new clients through various credit and deposit campaigns or direct acquisition of clients. In this segment, the Bank recorded an increase in the use of online banking services compared to 2020, **9%** in the number of users, **11%** in the number of transactions and **17%** in the transaction volume. A recovery of business is also visible in growing off-balance volumes due to higher utilization of guarantees, both in total volumes (increase of EUR 3m in Y2021 compared to 2020), as well as in number of guarantees issued.

In the Corporates segment, despite another pandemic year, the 2021 season yielded a solid result, as a result of positive trends and the recovery of the economy and a growth of liquidity, hence a further decline in interest rates. Therefore, the activities were primarily focused on maintaining the quality of the portfolio and fee income generating products.
Focus on Trade finance (guarantees, letters of credit) resulted in income higher than both in the previous year and pre-pandemic 2019.

In 2021, the **Global Markets** unit increased its results in all segments compared to 2020, despite the continuing uncertainty in global markets caused by the continuation of the Covid-19 pandemic and growing inflationary pressures. Also, despite the reduced volatility of the EUR/HRK currency pair, the Sales unit increased its revenues by 16% compared to 2020 and achieved a 15% increase in the number of individual transactions. The Trading unit significantly increased revenues compared to the previous year which doubled, but not yet reaching the pre-pandemic levels.

Risk Management

Bank was continuously strengthening its risk management system through different activities The Risk Strategy of 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 as general framework, for comprehensive management of materially significant risk types (e.g. credit risk, interest rate risk in the banking book, FX risk, operational risk, concentration risk) inherent to the Bank, is set to increase 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 2021, with a strong and full commitment from the Bank's Managing Board in the process. The Bank successfully maintained a stable NPL ratio (4.75% as of 31 December 2021). 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 recoveries) 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%.
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) as well as 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 such as 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 and optimization of the application used in fraud prevention processes and additional process upgrades

BackOffice

The Bank continued to make significant efforts towards improving efficiency and optimization of processes in the BackOffice units. The focus was put on maintaining the previously implemented RPA processes and on expanding their scope, as well as on improving the BPM process for the opening of accounts of corporate clients. Increased efficiency and reduced operational risk are also evident in the enhanced contract drafting process, automated distribution of letters and notices to clients, loan disbursements and collateral recording. In 2021, efforts were made to reduce costs, and clients were enabled to submit documentation via digital channel.
The Bank also introduced certain optimizations in the payment operations, primarily in the area of processing payment orders. The focus was also on the implementation of legislation, the T2-T2S consolidation and the preparations for the introduction of the euro as the new national currency.
By the end of 2021, 7 new processes were robotized, and along with several significant upgrades that increase the efficiency or scope of activities of previously robotized processes, the number of total robotized processes increased to 26; the number of transactions executed by robots increased by 10% compared to 2020, reaching a total of 201,000 transactions.

Marketing

In 2021, continuous and refreshed marketing communication continued to contribute to the recognition of the Bank on the local market, still primarily focused on credit and savings products, but also new products such as Bank's on-line banking and credit card. A new communication platform was implemented, which contributed to even greater recognition of the Bank; in accordance with the new communication platform, the visual identity of the branch-offices was aligned accordingly.

In its Corporate Social Responsibility strategy, the Bank continues to focus on society, children, culture and sports. In 2021, it strongly supported humanitarian and cultural projects. As part of its internal initiative in order to preserve the environment and contribute to the development of the society in general, the Bank launched number of internal and external activities, supporting with donations and sponsorships. In 2021, the Bank sponsored both National Tree Planting campaigns in Croatia, organized by the association "Plant a tree, don't be a stump!" and the Bank's employees also supported the campaigns with their personal engagement. Continuing to build cultural bridges, the Bank was a sponsor of "Knjiguška", a mobile library in the city of Petrinja, as well as the first Russian Animated Film Festival. At the end of the year, the Bank's employees traditionally donated gifts to the children of the orphanage homes in Karlovac and Laduč.

The year 2021 was also marked by intensive internal communication and increased employee engagement: the success of these activities is evidenced by the large-scale internal Jerusalema dancing project, where Bank sent a message of support and optimism in this pandemic period and to boost team spirit. In order to foster transparent internal communication, four Broadcasts were held through which the employees were informed about business news, plans and business results.

Human Resource Management

In 2021, one of the strategic initiatives of the Human Resource Management was to optimize existing processes and introduce an integrated IT solution in order to digitize and speed up the process of approving various requests of the employees (leave, education, annual performance management related activities, etc.). The implementation of this new IT system shortened the time necessary to retrieve and provide data to other units of the Bank, enabled managers to independently and at any time have an overview of data they need for their employees and independently perform all relevant employee-related transactions, primarily in the payment of salaries and handling travel orders. The framework for a new systematization of the work positions has also been defined. Activities within the internal Academy continued intensively; special attention was paid to the topics of mentoring and coaching, the objective being to faster and better manage human resources at all levels, as well as a more successful onboarding process for new employees and for those who need to upgrade their know-how related to bank-wide products and systems.

Given the uncertainty and challenges that continued in 2021, the focus remained on collaboration platforms that enabled further internal knowledge sharing, online education that was thematically available to employees at any time to upgrade know-how and competencies in various fields.

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

Our corporate values represent guidelines which help us making the right decisions in any given daily situation. There are three main corporate values: the first one is **All for the Customer** which means that all our activities are built around clients and are in their interests. We aim to surprise and delight clients with the quality of our services and attitude. We exceed client expectations. The second is **We Are a Team** and it is a reflection of our attitude towards our co-workers. We gladly help each other, working to achieve a common goal, we are open and trust our colleagues, we respect each other and help our colleagues to grow and develop.

The third one is **I Am a Leader**. This means that we take responsibility for our actions and for what is happening around us, we are giving our best efforts, we continuously develop and improve ourselves, the Bank and our environment. And last but not least, we are honest with each other and with our clients. Banking and financial markets are, to a special extent, based on market participants' confidence. Bank's success ultimately depends on a solid, trusting relationship between customers, credit institution and employees. Bank prescribed its *Code of Corporate Ethics and Conduct* which 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.

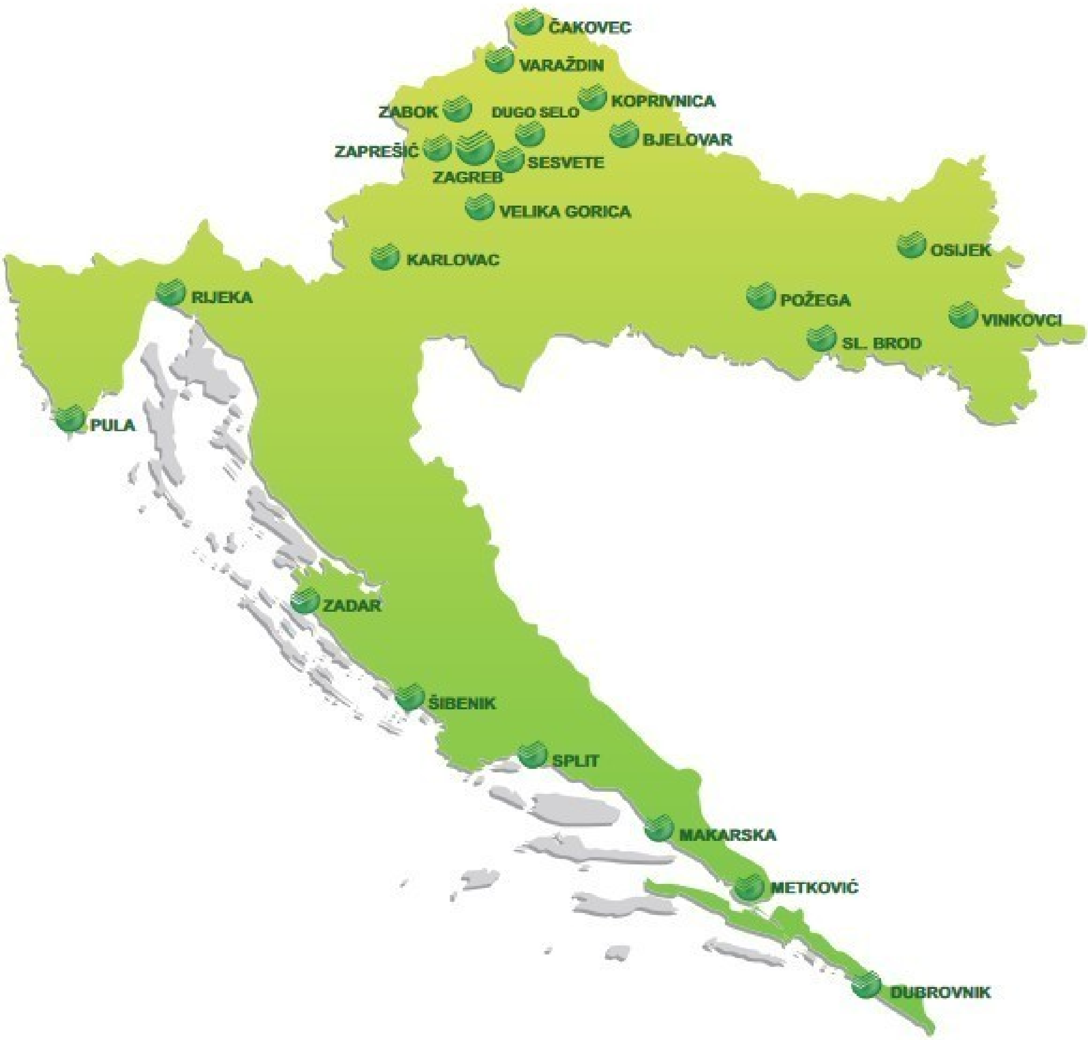
Research and development

Other than activities mentioned above there were no other significant activities related to research and development in year 2021.

Events after the balance sheet date

Events after balance sheed date are disclosed in note 38 – Events after balance sheet date.

Branch offices of Sberbank d.d. – u sanaciji



SUPERVISORY BOARD AND MANAGEMENT BOARD OF SBERBANK D.D.-u sanaciji

Supervisory Board and Management Board of Sberbank d.d.- u sanaciji

Memebers of resolution Management Board
Paško Rakić – chairman from 02.03.2022.
Boris Bekavac – member from 02.03.2022.

Previous Members of the Supervisory Board
Aleksei Mikhailov – Board member from 01.07.2019 until 01.03.2022.
Kornel Halmos – Board member from 01.07.2019 until 01.03.2022.
Dmitry Kuzin – Board member from 01.07.2019 until 01.03.2022.
Oleg Revenko - Board Member from 05.03.2020 until 01.03.2022.
Alexander Picker – Board member from 27.10.2021 until 01.03.2022.

Previous Members of the Management Board
Csaba Soós – Board member from 12.02.2020 until 01.03.2022.
Igor Repin – Board member from 19.07.2020 until 01.03.2022.
Roberto Bitunjac – Board member from 14.06.2019 until 01.03.2022.

Independent Auditor's Report

To the Owner of Sberbank d.d. – u sanaciji.

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sberbank d.d. – u sanaciji (the "Bank") as at 31 December 2021, and the Bank's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Resolution Board dated 18 March 2022.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Bank in the period from 1 January 2021 to 31 December 2021.

Our audit approach

Overview

Materiality	• HRK 11.3 million, which represents 1% of net assets.
Key audit matters	• Credit losses to loans and advances to customers • Provisions for litigations related to loans originally issued in or indexed to Swiss Franc

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

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

Materiality

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

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

Overall Bank materiality	HRK 11.3 million
How we determined it	1 % of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because it is the benchmark which is closely monitored and there is a strong focus on regulatory compliance measured by the adequacy of the capital (net assets).

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Credit losses for loans and advances to customers As at 31 December 2021, the Bank presented credit losses to loans and advances to customers in the amount of 333,800 thousand HRK. The following notes to the financial statements describe information related to loans and advances and their credit losses: Note 7 Loans and advances to customers to the financial statements, note 3 Specific accounting policies, note 4 Estimates and judgements and note 34.2. Credit risk. Credit losses are the management's best estimate of expected credit losses on loans and advances to customers portfolio at the reporting date. The amount of the credit losses is determined in accordance with International Financial Reporting Standards ("IFRS"). The Bank applies a three-stage model for calculating expected credit losses, based on changes in credit risk since initial recognition. For loans in Stage 1 and Stage 2, the Bank applies expected credit loss calculation as required by IFRS 9. For loans in Stage 3, credit losses are determined as the difference between the book value and the recoverable amount, which represents the net present value of future cash flows, including amounts recoverable from collaterals, discounted by original effective interest rate. We focused on this area because of the significance of these items in the Bank's financial statements and the fact that there is a judgement involved in application of the guidance for calculation of expected credit losses defined by IFRS 9 methodology.	We tested controls for approving and monitoring of loans and advances to customers, including appropriateness of classification of loans and calculation of days past due. We have selected sample of loans and advances to customers with the focus on exposures with potentially highest impact on the financial statements due to their size and/or risk profile as well as exposures that we considered as highly risky, such as restructured and non-performing exposures, for which we have verified valuation methodology and appropriateness of staging and for which we recalculated credit losses. For Stage 1 and Stage 2 portfolio we have reviewed expected credit loss calculation methodology and polices for credit losses recognized, while for stage 3 we have reviewed supporting documentation and discussed any issues with responsible personnel in the Bank. Also, we have tested on the sample basis adequacy of shifts between certain stages according to the relevant policies on applied model overlays due to the COVID-19 pandemic impact. For credit losses calculated on the individual basis, we have assessed key assumptions used in recovery scenarios, such as future cash flow estimates and recoverable value of collateral to ensure the exposures have been classified and measured in accordance with IFRS 9. We assessed adequacy of disclosures in financial statements that relate to credit losses for loans and advances to customers, including relevant disclosures in regards to COVID-19 pandemic impact. Furthermore, we evaluated whether key components of expected credit loss calculation are correctly incorporated in the models and tested on a sample basis the correctness of stage allocation according to the relevant policies in order to conclude on appropriateness of credit losses per IFRS requirements.

Key audit matter	How our audit addressed the key audit matter
Provisions for litigations related to loans originally issued in or indexed to Swiss Franc As at 31 December 2021, the Bank recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs ("CHF"). Note 4, Estimates and judgements under heading Provisions for litigation initiated against the Bank, and Note 31, Commitments and contingencies under heading c) Legal proceedings, to the financial statements provide information related to these provisions for litigation claims. The provision for litigation cases relates to loans that have not been converted and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements. Provisions for litigation claims represent the management's best estimate over both the timing and size of the probable outflow of economic resources required to settle the obligation at the reporting date. We focused on this area because there are considerable judgements and estimates in applying the International Audit Standard 37 to estimating both timing and size of the outflows of economic resources required to settle the Bank's obligations resulting from these litigation claims, given their inherent uncertainty.	We performed the following procedures and tests: We obtained understanding of the process and methodology applied to estimating the provisions for litigations related to loans originally granted in CHF. We obtained a detailed overview of the litigation claims against the Bank for loans denominated in CHF and the analytics of the provisions recognised for these cases. We reconciled this information to the information provided in the financial statements and to the information received from external law firms. As a part of our testing of the management's estimate, we obtained an independent overview and opinion pertaining to the Bank's litigation cases from the external law firms and we assessed the amount of provisions for reasonableness by comparing provisions made with the external law firms' opinion and available public information in order to challenge the key assumptions made by management. We have tested the calculation of the provisions for litigation claims for mathematical accuracy. We have assessed the disclosures related to these litigation provisions in the financial statements with respect to their adequacy and compliance with the requirements of the International Audit Standard 37.

Reporting on other information including the Management Report

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

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

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank on 6 March 2019. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 17 June 2021, representing a total period of uninterrupted engagement appointment of 3 years.

Forms in accordance with regulatory requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18, 122/20 and 119/21), "Decision"), the Management Board of the Bank prepared the forms according to Croatian National Bank requirements for the period from 1 January 2021 to 31 December 2021 presented in Appendix 1, entitled the "Statement of financial position (Balance sheet)" and note "Off-balance sheet items" as at 31 December 2021, "Income statement", "Statement of comprehensive income", "Statement of changes in shareholders' equity" and "Cash flow statement" for the year then ended (the "Forms"), together with information to reconcile the Forms to the Bank's financial statements. The Bank's management is responsible for the preparation of these forms and information on reconciliation and they do not represent an integral part of these audited financial statements, but contain information required by the Decision. The financial information in the forms is derived from the Bank's audited financial statements prepared in accordance with International Financial Reporting Standards as adopted by European Union and adjusted for the purposes of the Decision.

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
18 March 2022

Responsibility for the financial statements

Pursuant to the currently effective Accounting Act the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with accordance with International Financial Reporting Standards as adopted by the European Union, which give a true and fair view of the financial position and results of the Bank for the period.

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

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

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

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

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

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

The financial statements were authorised by the Management Board on 17 March 2022 for issue and are signed below to signify this

Paško Rakić	**Boris Bekavac**
Chairman of resolution Management Board	Member of resolution management Board

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
(All amounts in HRK thousands unless otherwise stated)

	Note	31 December 2021	31 December 2020
ASSETS			
Cash reserves and balances with the Croatian National Bank	5	2,009,014	1,900,090
Placements and loans with other banks	6	890,635	972,182
Financial assets at fair value through profit or loss	8	119,513	159,941
Loans and advances to customers	7	7,131,609	6,997,768
Financial assets at fair value through other comprehensive income	9	693,816	770,685
Other assets	11	23,985	21,601
Property and equipment	10a	97,345	119,718
Intangible assets	10b	102,638	87,040
Deferred tax assets	28c	21,084	28,742
Total assets		**11,089,639**	**11,057,767**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	12	317,108	638,235
Financial liabilities at fair value through profit or loss	16	21	2,456
Deposits from customers	13	7,897,778	8,009,916
Borrowings	14	1,109,957	739,266
Other liabilities	18	201,801	196,613
Provision for liabilities and charges	17	157,976	91,525
Subordinated liabilities	15	203,104	203,640
Total liabilities		**9,887,745**	**9,881,651**
EQUITY			
Share capital	29	615,623	615,623
Share premium	29a	915,045	915,045
Accumulated losses	29	(356,194)	(389,693)
Fair value reserve	30	7,109	14,830
Other reserves	29b	20,311	20,311
Total equity		**1,201,894**	**1,176,116**
Total liabilities and equity		**11,089,639**	**11,057,767**

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts in HRK thousands unless otherwise stated)

	Note	2021	2020
Interest income calculated using the effective interest method	19	328,973	330,365
Interest expense	20	(55,056)	(62,330)
Net margin on interest and similar income		**273,917**	**268,035**
Fee and commission income	21	92,989	81,908
Fee and commission expense	21	(24,638)	(24,865)
Gains less losses on financial instruments at fair value through profit or loss	22	804	(25,881)
Gains less losses from trading in foreign currencies	23	17,839	2,825
Gains less losses from translation of monetary assets and liabilities		(883)	10,782
Gains less losses from financial assets at FVOCI		-	442
Other operating income/expense		2,386	3,784
Administrative expenses	25	(125,896)	(123,314)
Personnel expenses	26	(102,247)	(100,308)
Credit loss allowance	27	(17,031)	(91,582)
Provisions and impairment of non-financial assets	24	(74,388)	(26,005)
Profit/(loss) before tax		**42,852**	**(24,179)**
Income tax (expense)	28	(9,353)	(11,482)
Profit/(loss) for the year		**33,499**	**(35,661)**
Other comprehensive income /(loss) for the year, net of income tax			
Net change in fair value of FVOCI financial assets (that can be reclassified to P&L), net of deferred tax	30	(7,721)	2,006
Total comprehensive income/(loss) for the year		**25,778**	**(33,655)**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in HRK thousands unless otherwise stated)

	Share capital	Share premium	Other reserves (Note 29) Legal reserves	Other reserves (Note 29) Other reserves created in accordance with the Statute	Other reserves (Note 29) Total other reserves	Fair value reserves	Accumulated losses	Total
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 that can 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 credit loss allowance 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 (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**
Balance at 1 January 2021	**615,623**	**915,045**	**6,513**	**13,798**	***20,311***	**14,830**	***(389,693)***	**1,176,116**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	*33,499*	*33,499*
Other comprehensive income								
Other comprehensive income that can 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)	-	-	-	-	-	*(9,380)*	-	*(9,380)*
Net changes in credit loss allowances of debt instrument at FVOCI	-	-	-	-	-	*(36)*	-	*(36)*
Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised (Note 30)	-	-	-	-	-	*1,695*	-	*1,695*
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(7,721)**	**33,499**	**25,778**
Balance at 31 December 2021	**615,623**	**915,045**	**6,513**	**13,798**	***20,311***	**7,109**	***(356,194)***	**1,201,894**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021
(*All amounts in HRK thousands unless otherwise stated)*

	Note	2021	2020
Cash flows from operating activities			
Profit/(loss) before tax		42,852	(24,179)
Adjustment for:			
Realised (losses) from sale FVOCI debt securities		-	(442)
Depreciation and amortization	25	36,369	35,553
Net foreign exchange losses/(gains) from translation		8,637	(11,074)
Credit loss alowance	27	17,031	91,582
Provisions and impairement of non financial assets	24	74,388	26,005
Net trading (gains)/losses from trading securities	22	(804)	25,881
Net trading (gains)/losses from derivative financial instruments	23	(4,198)	8,376
Interest income calculated by using effective interest method	19	(328,973)	(330,365)
Interest expense	20	55,056	62,330
Other non-cash items		4,617	(2,127)
Operating result before changes in operating assets and liabilities		**(95,025)**	**(118,460)**
Changes in operating assets and liabilities:			
Net (increase)/decrease in obligatory reserve with the Croatian National Bank		(5,993)	189,712
Net (increase) in loans and advances to customers		(178,332)	(617,686)
Net decrease in placements and loans with other banks with maturity above three months		-	2,898
Net (increase)/decrease in other assets		(2,384)	4,545
Net (decrease)/increase in deposits from banks		(321,126)	(507,237)
Net (decrease) in deposits from customers		(112,895)	370,850
Net (decrease)/increase in other liabilities		18,599	8,861
Net (increase)/decrease of financial assets at fair value through profit or loss		42,112	38,484
Net cash (outflow) from operating activities		**(655,044)**	**(628,033)**
Cash flow from investing activities			
Purchase of property and equipment and intangible assets	10	(34,202)	(45,596)
Purchases of FVOCI securities		(98,622)	(200,844)
Proceeds on disposals of FVOCI securities		166,111	223,553
Net cash inflow/(outflow) from investing activities		**33,287**	**(22,887)**
Cash flow from financing activities			
Lease payments	18	(13,411)	(13,776)
(Decrease)/increase of subordinated liabilities		(536)	2,534
Increase in borrowings	14	370,691	151,914
Net cash inflow from financing activities		**356,744**	**140,672**
Cash and cash equivalents at the beginning of the year	32	**2,399,830**	**2,625,922**
Net increase/(decrease) in cash and cash equivalents		**30,689**	**(226,384)**
Effect of foreign exchange differences on cash and cash equivalents	32	(7,754)	292
Cash and cash equivalents at the end of the year	32	**2,422,765**	**2,399,830**
Operating cash flows from interest			
Interest received		*350,002*	*346,009*
Interest paid		*(54,300)*	*(62,145)*

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

NOTE 1 – GENERAL INFORMATION AND BASIS OF PREPARATION

Sberbank d.d., Zagreb ("the Bank") is a joint stock company founded in the Republic of Croatia and registered at the Commercial Court in Zagreb on February 1997. The Bank's headquarters are in Zagreb, Varšavska 9. Since foundation and until January 18, 2013, the Bank's official name was Volksbank d.d. and the Bank was a member of Volksbank Austria Group. On January 18, 2013 the name was changed to Sberbank d.d. Until end of January 2012 the Bank's majority shareholder was Volksbank International AG, Vienna ("VBI") and the ultimate parent was Österreichische Volksbanken Aktiengesellschaft, Vienna ("VBAG"), a joint stock company, incorporated and domiciled in Austria. In February 2012, VBI was acquired by Sberbank of Russia, open joint stock company, incorporated and domiciled in Russian Federation. On February 15th, 2012 Volksbank International acquired shares of Volksbank d.d. from remaining shareholders and became the sole shareholder of the Bank with 100% shares. On November 1st, 2012 Volksbank International AG changed the name to Sberbank Europe AG. On 31 December 2021 and 2020 the Bank's only shareholder is Sberbank Europe AG, Vienna and the ultimate parent is Sberbank of Russia, open joint stock company, incorporated and domiciled in Russian Federation whose principal shareholder is the Ministry of Finance of Russian Federation. Disclosures are made in Note 37 for significant transactions with Sberbank of Russia related parties. There are no transactions with Russian state-controlled entities and government bodies.

After the Decision of the CNB to initiate resolution proceedings as of 1 March 2022, the Bank is operating under the company name "Sberbank d.d. - u sanaciji" ("pending resolution") and the Bank's management and the function of all its committees were taken over by the resolution management board appointed by the CNB. Moreover, as part of the resolution proceedings, the Bank was sold and the ownership transferred to Hrvatska poštanska banka (HPB) which is now registered as the sole owner of the Bank, holding 100% of its shares

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 2.

b) First time adoption of IFRS

These financial statements for the year ended 31 December 2021 are the Bank's first annual financial statements that comply with IFRS. The Bank's IFRS transition date is 1 January 2021. Subject to certain exceptions, IFRS 1, First-time Adoption of International Financial Reporting Standards, requires retrospective application of the version of standards and interpretations effective as of 31 December 2021 in preparing the opening IFRS statement of financial position at 1 January 2021 and throughout all periods presented in its first IFRS financial statements. In preparing these financial statements, the Bank did not have material mandatory exceptions and did not apply any optional exemptions to the retrospective application of other IFRSs.
There are no material reconciling effects to the transition from statutory accounting regulations for banks in the Republic of Croatia to IFRS as at 1 January 2020 and for the year ended 31 December 2020. The Bank's operating, investing and financing cash flows reported under statutory accounting regulations for banks in the Republic of Croatia did not significantly differ from those required under IFRS.

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

c) Use of estimates and judgements

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

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

d) Functional and presentation currency

The financial statements are presented in Croatian kuna (HRK), which is the Bank’s functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated). As at 31 December 2021 the exchange rates used for translation were HRK 7.517174 to EUR 1 (31 December 2020: HRK 7.536898 to EUR 1).

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

e) COVID-19 pandemic impact on operations and result

The second year of the COVID-19 disease pandemic was marked by a high level of uncertainty regarding the development of the health and economic situation. Economic growth in the first half of 2021 was accelerated by the increase in economic activity due to easing of measures related to the COVID-19 pandemic positively influencing the credit quality of the portfolio, compared to 2020. It is considered that Bank’s going concern ability will not be threaten.

NOTE 2 – ACCOUNTING STANDARDS

Adoption of New or Revised Standards and Interpretations
The following amended standards became effective from 1 January 2021 and are endorsed by EU, but did not have any material impact on the Bank:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:
  - *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform. *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
  - *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

  The Bank was not impacted significantly with IBOR reform as they hold several derivative instruments which were impacted by change to other interbank offered rate which is immaterial to the financial statements.

- Amendment to IFRS 4 – deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021).

NOTE 2 – ACCOUNTING STANDARDS (CONTINUED)

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, which are endorsed by EU and which the Bank has not early adopted.

- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021.

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, which are not endorsed by EU and which the Bank has not early adopted.

- IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

NOTE 2 – ACCOUNTING STANDARDS (CONTINUED)

New Accounting Pronouncements (continued)

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

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Interest income and interest expense
Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC. If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of credit loss allowance.

Fee & commission income and expenses

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains less losses on financial instruments at fair value through profit or loss
This category includes realised and unrealised gains and losses from trading debt securities.

Gains less losses from trading in foreign currencies
This category includes spreads earned from foreign exchange trading and from derivative financial instruments.

Gains less losses from translation of monetary assets
This category includes net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency.

Gains less losses on securities acquired for investment purposes
This category includes realized gains and losses from the sale of equity and debt securities at fair value through other comprehensive income.

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

Administrative expenses
The position includes staff-related expenses such as salaries, taxes, social insurance and staff compensation expenses. Other administrative expenses are: costs of materials and other costs, service costs, costs of company car usage and costs of other means of transport, business travel expenses, entertainment costs, advertising, propaganda and official clothing costs.
Other costs include: deposit insurance premium, expenses from value adjustments and amortization of tangible and intangible assets, taxes, contributions and membership fees from income, expenses for fines for violations, carrying value of disposed and confiscated property, material and other expenses from previous years, costs of sending and receiving foreign cash, expenses from the sale of property.Depreciation is calculated monthly by the linear method, by applying annual rates to the cost value or valuation to be written off over their estimated useful lives.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions in foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into HRK at the foreign exchange rates ruling at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.
The changes in the fair value of financial securities denominated in foreign currencies measured at FVOCI are divided between the exchange rate differences arising from changes in the amortized cost of the securities and the other changes in the net carrying amount of the securities.
The translation differences are recognised in the profit or loss as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities.

Corporate income tax

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

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Classification of financial assets
The Bank has classified its financial instruments into the following categories:
1. Assets measured at amortized cost (AC)
2. Assets measured at fair value through other comprehensive income (FVOCI)
3. Assets measured at fair value through profit or loss (FVPL)

The decision to classify a category of financial assets is made on the basis of:
- the business model of managing the financial asset
- the characteristics of the contracted cash flow

Financial assets classified into the above categories are:
- debt instruments
- equity instruments
- derivative instruments.

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial guarantees

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

Performance guarantees

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

Cash and cash equivalents

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Business models

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

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

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

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

Characteristics of contracted cash flows

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Classification of debt instruments
Debt instruments are classified into categories based on the business model and the characteristics of the contracted cash flows, i.e. the fact whether the contractual cash flows reflect only the payment of principal and interest on the outstanding principal amount (SPPI).
Debt instruments are measured at amortized cost if they meet the following two conditions cumulatively:

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

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

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Measurement of financial assets

Recognition and de-recognition

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

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

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

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

Initial measurement

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

Subsequent measurement

Financial instruments are subsequently measured in 3 ways:

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Measurement of financial assets (continued)

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

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Gains and losses from subsequent measurement of the financial instruments

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Modifications (continued)

Modifications that are not significant do not result in de-recognition of a financial instrument, but for them it is required to re-calculate their gross carrying amount and recognize the gain or loss on the P&L resulting from the modification. The gain or loss arising from the modification is calculated as the difference between the gross carrying amount before and after the modification. The gross carrying amount is calculated as the present value of the modified cash flows using the original effective interest rate or, in the case of a modification of assets already impaired, at the credit-adjusted effective interest rate. A significant modification of an impaired asset where after the modification the expected cash flows do not correspond to the newly contracted cash flows results in the de-recognition of the old instrument and the recognition of the new asset that is classified as POCI (purchased or originated credit - impaired financial asset) - an asset that is initially recognized as impaired and for which is not required at initial recognition to post value adjustments. In most of the cases, this relates to the distressed restructuring deals, where the initial assets are no longer recognized, but the borrower's financial difficulties are still present and obvious when recognizing the new assets. POCI assets may also arise from the purchase of a financial asset that is impaired at purchase - the relevant credit risk at acquisition is very high and usually such assets are purchased at a large discount. For POCI assets, the effective interest rate adjusted for credit risk needs to be calculated. The effective interest rate adjusted for credit risk is the rate that accurately discounts the estimated future payments in cash or cash receipts during the expected life of the financial asset to the amortized cost of the financial asset acquired or financial assets created net of the credit losses. When calculating the effective interest rate adjusted for the credit risk, the Bank estimates the cash flows taking into account all the contractual terms of the financial asset (e.g. prepayment, prolongation, purchase and similar options) and the expected credit losses. The calculation includes all fees and amounts paid or received between the counterparties which are an integral part of the effective interest rate, the transaction costs and all other premiums or discounts. Assets once classified as POCI assets always remain in this category.

Individual financial instruments

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

Loans and advances to customers
Loans and advances to customers are classified as loans and receivables. Loans and advances are presented net of credit loss allowance to reflect their estimated recoverable amounts.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Individual financial instruments (continued)

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

Derivative financial instruments
Derivative financial instruments include swap and forward foreign exchange contracts. These are classified as financial instruments at fair value through profit or loss. No derivative instruments are accounted for as hedging instruments. Derivative financial instruments are initially recognised in the statement of financial position at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The notional amount of derivative financial instruments is initially recorded off balance sheet. The fair value is determined based on the quoted market price or, if more appropriate, based on discounted cash flow techniques.

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

Netting of financial instruments
Financial assets and liabilities are netted and the net amount is reported in the statement of financial position, when there is a statutory right for reimbursing the recognized amounts and if there is an intent to report on a net basis or to realize the asset and settle the liability at the same time. Income and expenses are accounted for on a net basis only when so allowed in the accounting rules, or for gains and losses arising from a group of similar transactions (such as trading activities).

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-financial assets

Property & equipment

Property and equipment are recognized in the balance sheet at their cost or assumed acquisition cost net of the accumulated depreciation and impairment losses.
The Bank recognizes as part of the carrying value of a property or equipment the cost of replacing parts of such an asset, when it is probable that the future economic benefit from such asset will flow to the bank and the cost of such an asset can be measured reliably. All other expenses related to repairs or maintenance costs are incurred at the time of their occurrence.
Depreciation is calculated using the linear method, so that the cost of the acquisition of the asset is written off during its estimated useful life, at the following annual rates:

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

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

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

Intangible assets

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

	%
Software	20.0
Licence	20.0

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-financial assets (continued)

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

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

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

Current accounts and deposits of banks
This position includes FX current accounts of banks, at-sight deposits, term deposits and special roles of banks. These positions are reported in the balance sheet in the contractually agreed amount. Liabilities in foreign currencies are denominated in kuna at the agreed exchange rate valid on balance sheet date.
The interest is included in the expenses in the time period in which they are generated.

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

Current accounts and deposits of customers
This position includes: at-sight deposits of customers, received term deposits, restricted deposits, borrowings and special roles of customers.
Restricted deposits represent deposits placed by companies for foreign payments that the Bank carries out for them for the purpose of opening letters of credit or buying foreign means of payment. Liabilities are reported in the balance sheet in the contractually agreed amount stemming from business financial transactions. Any possible increase in the obligations in relation to the initial amounts may result from revalorisation and regular interest, if so agreed.
For the at-sight deposits, deposits received and loans the interest is included in the expenses in the time period in which they are generated.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other liabilities
This position includes liabilities for personnel expenses, tax and contribution obligations, net profit distribution obligations, receivables of suppliers, obligations stemming from issued payment instruments, obligations arising from employee wage garnishments, advance payments received, receivables of authorized exchange offices and provisions for other current liabilities.
Expenses being payables of the current period which are payable in a future accounting period are reported as deferred payment of expenses as accruals.
Revenues from future periods charged in advance are reported as accruals as non-overdue income.

Provisions for liabilities and charges
Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions for liabilities and charges are maintained at a level estimated by the Bank to be sufficient to absorb any possible losses. The Bank's management determines the sufficiency of the provisions based on an analysis of the individual positions, the current economic conditions, the risk characteristics of certain transaction categories, as well as other relevant factors.

Share capital and reserves
Share capital is reported in HRK at nominal value. Amounts paid for the redemption of share capital, including the direct costs, are recognized as capital and reserves reductions and classified as own shares. The operating result for the year is transferred to retained earnings. Dividends are recognized as a liability in the period when their payment is announced.

Off-balance sheet items, commitments and potential liabilities
In the regular course of business, the Bank enters credit liabilities that are registered in the off-balance sheet records. These mainly include guarantees, letters of credit and non-utilized frame loan facilities. Such commitments-financial liabilities are recognized in the balance sheet of the Bank, if and when they become payable. For the amounts of the loss that are specifically identified on the basis of guarantees, letters of credit and other commitments that are classified into risk groups in accordance with the regulations of the Croatian National Bank and IFRS and internal regulations of the Bank provisions are allocated for potential credit losses at the expense of the relevant accounting period.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

The lease payments are discounted using the Bank's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments. The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right-of-use assets,are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The right-of-use assets are amortized over the period of lease contract. Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

NOTE 4 – ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial relate to measurement of ECLs. ECL measurement is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in 34.2. Credit risk. The following components have a major impact on credit loss allowance:

- segmentation of financial assets for the ECL assessment purposes;
- determination of a level of ECL assessment on an individual instrument basis or on a collective basis;
- definition of default applied by the Bank;
- development and application of internal credit grading models, which assigns PDs to the individual credit risk grades;
- development and application of internal models used to estimate exposure at default ("EAD") for financial instruments and credit related commitments;
- assessment of loss given default ("LGD"), including the judgments made in valuation of collaterals;
- criteria for assessing if there has been a significant increase in credit risk; and
- selection of forward-looking macroeconomic scenarios and their probability weightings

The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

In 2021, due to significant and rapid changes in the economic environment, the Bank decided to adjust the approach to measure LGD and respectively the ECL. The management performed a top-down portfolio analysis and had identified groups of borrowers, for the overlay is incorporated in the LGD measurement. Overlays applied by the management resulted in the increase of LGD for corporate borrowers in the following industries :

- Small and Medium segment –LGD increase of 35%;
- Corporate segment –LGD increase of 35%; and
- Retail cash loans–LGD increase of 1%.

(All amounts in HRK thousands unless otherwise stated)

NOTE 4 – ESTIMATES AND JUDGMENTS (CONTINUED)

The quality of the credit portfolio of the Bank and appropriateness of related ECL for loans and advances to customers are notably influenced by macroeconomic developments. Unexpected development of economic conditions, especially related to real estate market, cannot be excluded and could have significant impact on the required credit loss allowance of loans and receivables. Furthermore, there are uncertainties in relation to future outcomes and timings of legal actions initiated by the Bank in order to realise collections per defaulted loans and receivables. Additionally, expected cash flows from Stage 3 are causing the share of uncertancies in the modelling of the ECL due to the assumptions applied in ECL calculations. A summary of credit loss allowances on exposures to customers together with the gross value of defaulted loans and advances with ECL calculated on individual basis is presented below:

	Note	31 December 2021	31 December 2020
Credit loss allowance on loans and advances to customers	7 (b)	333,800	359,954
Other credit loss allowance		2,729	1,251
Credit loss allowance for off-balance-sheet credit risk exposure	17	5,607	13,553
Total credit loss allowance		**342,136**	**374,758**
Gross value of defaulted loans and advances with ECL calculated on individual basis		357,917	355,523

Provisions for litigation initiated against the Bank

The Bank recognises provisions for litigation initiated against the Bank, for which it is probable that there will be an outflow of resources to settle the claims and the amounts can be reliably estimated. The Bank also creates provisions for future potential disputes in accordance with IAS 37 Provisions, contingent liabilities and contingent assets. Provisions for litigation cases against the Bank are recognised on the level of individual lawsuits filed against the Bank and expected probability that there will be an outflow of the resources in the future. Assumptions and best estimates are based on in-house legal assessment and professional legal advice by external law firms. Management estimated provision for non-converted loans taking into consideration publicly available information, court decisions and external law firm expert opinion. Having in mind, the current number of lawsuits initiated against the Bank and timeline between receiving lawsuits and reaching final verdict Bank concluded on the level of estimated provision. The Management considers the current level of provisioning to be sufficient to settle the claims arising from the CHF loans related lawsuits. If the number of non-converted loans lawsuits increased by 10% in comparison to current number of lawsuits initiated against the Bank, the level of provision would increase by HRK 9 milion taking into consideration currently expected probability of loss of those cases.

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

(All amounts in HRK thousands unless otherwise stated)

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

	31 December 2021	**31 December 2020**
Cash in hand	220,516	202,086
Total cash reserves	**220,516**	**202,086**
Current accounts with the Croatian National Bank	1,311,614	1,225,562
Obligatory reserve in HRK	478,948	472,984
Balances with the Croatian National Bank	**1,790,562**	**1,698,546**
Credit loss allowance for current accounts and obligatory reserves	(2,064)	(542)
Total balances with the Croatian National Bank	**2,009,014**	**1,900,090**

a) Movement in credit loss allowance on cash reserves and balances with the CNB

	31 December 2021	**31 December 2020**
Balance at 1 January	542	760
ECL charge/(credit)	1,522	(218)
Balance at 31 December	**2,064**	**542**

The CNB determines the requirement for banks to calculate an obligatory reserve, which is required to be deposited with the CNB and held in the form of other liquid receivables. The obligatory reserve requirement as at 31 December 2021 amounted to 9% (31 December 2020: 9%) of HRK and foreign currency deposits, borrowings and issued debt securities. Of the calculated foreign currency component of reserve requirement, 75% is included in calculated HRK component and executed in HRK. Remaining 25% is maintained by average daily balances at own foreign currency accounts (with S&P and Fitch rating AA- and Moody's rating Aa3 respectively), at own foreign currency account with CNB (min 2%) and at cash in foreign currency. As at 31 December 2021 the percentage for allocating HRK component of reserve requirements is 70%, while for the foreign currency component it amounts to 0%.

(All amounts in HRK thousands unless otherwise stated)

NOTE 6 – PLACEMENTS AND LOANS WITH OTHER BANKS

	31 December 2021	31 December 2020
Current accounts with banks		
- denominated in foreign currency	772,795	403,185
- denominated in HRK	1,921	14,583
Loans and time deposits with banks		
- denominated in foreign currency	115,685	548,095
- denominated in HRK	-	200
Other receivables from banks	238	6,132
Credit loss allowance for placements and loans with other banks	(4)	(13)
Total Placements and loans with other banks	**890,635**	**972,182**

In 2021 there is no accrued interest in Placements and loans with other banks (31 December 2020: HRK 10 thousand).

a) Movement in credit loss allowance on placements and loans with other banks

	31 December 2021	31 December 2020
Balance at 1 January	**13**	**10**
ECL (credit)/charge	(9)	3
Balance at 31 December	**4**	**13**

(All amounts in HRK thousands unless otherwise stated)

NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS

Analysis by recipient

	31 December 2021	**31 December 2020**
Individuals and unincorporated businesses	**4,757,772**	**4,542,199**
- short term	280,188	198,330
- long term	4,477,584	4,343,869
Companies and similar organisations	**2,610,041**	**2,658,585**
- short term	549,234	759,404
- long term	2,060,807	1,899,181
Other	**97,596**	**156,938**
- short term	237	13,584
- long term	97,359	143,354
Gross loans and advances to customers	**7,465,409**	**7,357,722**
Credit loss allowance on loans and advances to customers	**(333,800)**	**(359,954)**
Net loans and advances to customers	**7,131,609**	**6,997,768**
Total credit loss allowance as a percentage of gross loans and advances to customers	*4.47%*	*4.89%*

As at 31 December 2021 gross loans and advances to customers include accrued interest in the amount of HRK 50,060 thousand (31 December 2020: HRK 50,835 thousand) while deferred fees in the amount of HRK 14,814 thousand (31 December 2020: HRK 15,404 thousand) are deducted from the amount of gross loans and advances to customers.

Credit loss allowance on loans and advances to customers includes credit loss allowance on accrued interest on loans and advances to customers in the amount of HRK 14,592 thousand (31 December 2020: HRK 10,058 thousand).

(All amounts in HRK thousands unless otherwise stated)

NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

a) Movement in credit loss allowance on loans and advances to customers

	2021	2020
Balance at 1 January	**359,954**	**331,240**
ECL on loans and advances to customers recognised in the income statement	25,090	87,147
Amounts written off	(14,692)	(13,997)
Sold receivables	(47,875)	(52,901)
Foreign exchange and other differences	11,323	8,465
Balance at 31 December	**333,800**	**359,954**

In 2021 and in 2020, sold receivables relate to defaulted loans granted to individuals and corporate customers, which have been sold to external debt collection company and other entities.

Breakdown of credit loss allowance movements:

	Balance at 31st December 2020	ECL (charged) /credited	Amounts written off and sold receivables	Foreign exchange and other differences	Balance at 31st December 2021
Stage 3					
Corporate	(41,368)	1,182	15,719	(1,604)	(26,071)
Retail	(168,659)	(91,497)	45,130	(9,719)	(224,745)
	(210,027)	**(90,315)**	**60,849**	**(11,323)**	**(250,816)**
Stage 1 and Stage 2					
Corporate	(55,894)	24,093	-	-	(31,801)
Retail	(90,585)	43,877	-	-	(46,708)
	(146,479)	**67,970**	**-**	**-**	**(78,509)**
Other	**(3,448)**	**(2,745)**	**1,718**	**-**	**(4,475)**
Total credit loss allowance	**(359,954)**	**(25,090)**	**62,567**	**(11,323)**	**(333,800)**
Note	*7(b)*	*27*	*7 (b)*	*7 (b)*	*7 (b)*

(All amounts in HRK thousands unless otherwise stated)

NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

b) Movement in credit loss allowance on loans and advances to customers (continued)

Breakdown of credit loss allowance movements (continued):

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

	Stage 1	Stage 2	Stage 3	POCI	Total
Credit loss allowance as at 1 January 2021	**(81,105)**	**(65,375)**	**(213,474)**	**-**	**(359,954)**
New assets originated or purchased	(13,990)	(3,926)		-	**(17,916)**
Transfers to Stage 1	(18,510)	11,980	6,530	-	**-**
Transfers to Stage 2	5,847	(19,542)	13,695	-	**-**
Transfers to Stage 3	1,562	11,811	(13,373)	-	**-**
ECL (charge)/credit	67,822	24,917	(110,175)	-	**(17,436)**
Assets derecognised or repaid	-		(1,417)	-	**(1,417)**
Amounts written off	-		62,567	-	**62,567**
Foreign exchange adjustment	-		356	-	**356**
Credit loss allowance as at 31 December 2021	**(38,374)**	**(40,135)**	**(255,291)**	**-**	**(333,800)**

(All amounts in HRK thousands unless otherwise stated)

NOTE 7 – LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

b) Movement in credit loss allowance on loans and advances to customers (continued)

Breakdown of credit loss allowance movements (continued):

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

In 2021 Bank has written off HRK 62,567 thousand as the result of non-performing exposure sale process. In 2020 Bank has written off HRK 66,898 thousand as the result of non-performing exposure sale process.

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

	31 December 2021	31 December 2020
Financial assets held for trading		
Republic of Croatia government bonds, listed	119,117	96,037
Derivative financial instruments	396	2,676
	119,513	**98,713**
Non-trading financial assets		
Equity instruments	-	12,245
Debt securities	-	48,983
	-	**61,228**
Total	**119,513**	**159,941**

Non-trading financial assets in 2020 related to investment in Fortenova group which was sold in April 2021.

(All amounts in HRK thousands unless otherwise stated)

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

a) Analysis by security type

	31 December 2021	31 December 2020
Debt securities		
Republic of Croatia government bonds, listed	595,903	668,619
Foreign government bonds,listed	97,772	101,925
	693,675	**770,544**
Equity securities		
Other equity securities, unlisted	**141**	**141**
	141	**141**
	693,816	**770,685**

As at 31 December 2021 financial assets at fair value through other comprehensive income include accrued interest in the amount of HRK 5,469 thousand (31 December 2020: HRK 6,974 thousand). Credit loss allowance of FVOCI financial assets in 2021 in amount of HRK 661 thousand (31 December 2020: HRK 696 thousand)

b) Securities pledged as collateral for borrowing with financial insurance

Carrying amounts of matching borrowing (Note 14)		Securities pledged as collateral	
31 December 2021			
Croatian National Bank	*Ministry of Finance*		*Maturity date of matching borrowing*
	HRRHMFO23BA4	9,295	27 November 2023
	HRRHMFO23BA4	68,162	9 November 2022
	HRRHMFO253A3	82,299	9 November 2022
	HRRHMFO253A3	33,120	18 March 2025
	HRRHMFO23BA4	42,343	13 December 2023
	XS1713462668	59,438	18 March 2025
	XS1843434876	92,031	18 March 2025
346,626		**386,688**	
31 December 2020			
Croatian National Bank	*Ministry of Finance*		*Maturity date of matching borrowing*
	HRRHMFO217A8	84,993	9 November 2022
	HRRHMFO23BA4	4,178	27 November 2023
	HRRHMFO23BA4	68,932	9 November 2022
	HRRHMFO253A3	32,821	18 March 2025
	HRRHMFO23BA4	42,822	13 December 2023
	XS1713462668	62,197	18 March 2025
	XS1843434876	95,524	18 March 2025
343,972		**391,467**	

(All amounts in HRK thousands unless otherwise stated)

NOTE 10 – PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

a) Property and equipment

	Property and equipment					Right-of-use asset			
2021	Buildings	Computer equipment	Furniture	Leasehold improvements	Assets acquired but not brought into use	Buildings	Computer equipment	Transport vehicles	**Total**
Cost									
At 1 January 2021	**14,390**	**66,106**	**10,225**	**41,788**	**8,584**	**87,647**	**110**	**2,239**	**231,089**
Additions	-	-	-	-	1,878	4,107	-	509	6,494
Disposals/write offs	(442)	(3,013)	(1,089)	(4,654)	-	(6,781)	(7)	(815)	(16,801)
Transfers	20	7,269	249	1,973	(9,511)	-	-	-	-
At 31 December 2021	**13,968**	**70,362**	**9,385**	**39,107**	**951**	**84,973**	**103**	**1,933**	**220,782**
Accumulated depreciation									
At 1 January 2021	**(5,426)**	**(50,417)**	**(7,098)**	**(30,424)**	**-**	**(16,394)**	**(56)**	**(706)**	**(110,521)**
Charge for the year	(269)	(7,498)	(825)	(3,833)	-	(11,327)	(27)	(482)	(24,261)
Disposals/write offs	333	3,013	1,088	4,320	-	2,884	7	217	11,862
At 31 December 2021	**(5,362)**	**(54,902)**	**(6,835)**	**(29,937)**	**-**	**(24,837)**	**(76)**	**(971)**	**(122,920)**
Impairment of the year	(312)	(205)	-	-					**(517)**
Carrying value									
At 1 January 2021	**8,652**	**15,484**	**3,127**	**11,031**	**8,584**	**71,253**	**54**	**1,533**	**119,718**
At 31 December 2021	**8,294**	**15,255**	**2,550**	**9,170**	**951**	**60,136**	**27**	**962**	**97,345**

Purchase cost of assets in use that were 100% depreciated and amortised at the end of 2021 amounted to HRK 73,7 million (end of 2020: HRK 62,2 million).

(All amounts in HRK thousands unless otherwise stated)

NOTE 10 – PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

a) Property and equipment (continued)

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 10 – PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

b) Intangible assets

2021

Cost	Software,licences and other intangible assets	Assets acquired but not brought into use	**Total**
At 1 January 2021	**130,107**	**51,782**	**181,889**
Additions	-	27,708	27,708
Transfers	47,427	(47,427)	-
At 31 December 2021	**177,534**	**32,063**	**209,597**
Accumulated depreciation			
At 1 January 2021	**(94,473)**	**-**	**(94,473)**
Charge for the year	(12,110)	-	(12,110)
At 31 December 2021	**(106,583)**	**-**	**(106,583)**
Impairment of previous year	(86)	(290)	(376)
Impairment of the year	(376)	-	(376)
Carrying value			
At 1 January 2021	**35,548**	**51,492**	**87,040**
At 31 December 2021	**70,575**	**32,063**	**102,638**

2020

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

Assets acquired but not brought into use within intangible assets relate to software under development and purchase of licenses.

(All amounts in HRK thousands unless otherwise stated)

NOTE 11 – OTHER ASSETS

	31 December 2021	31 December 2020
Prepaid expense	7,184	4,116
Assets acquired in lieu of uncollected receivables	4,338	6,796
Receivables for advance payments	3,758	3,028
Assets from foreign exchange transactions between banks	343	274
Blocked assets until court's decision	7,720	7,258
Other assets	931	694
	24,274	**22,166**
Credit loss allowance on assets acquired in lieu of uncollected receivables	(289)	(565)
	23,985	**21,601**

NOTE 12 – DEPOSITS FROM BANKS

	31 December 2021	31 December 2020
Demand deposits		
- denominated in HRK	21,825	28,380
- denominated in foreign currency	3,536	3,631
	25,361	**32,011**
Time deposits		
- denominated in HRK	125,032	100,014
- denominated in foreign currency	166,715	506,210
	291,747	**606,224**
Total deposits from banks	**317,108**	**638,235**

Deposits from banks include accrued interest in the amount of HRK 384 thousand (31 December 2020: HRK 2,750 thousand).

(All amounts in HRK thousands unless otherwise stated)

NOTE 13 – DEPOSITS FROM CUSTOMERS

	31 December 2021	31 December 2020
Current accounts and demand deposits		
Individuals and unincorporated businesses	1,637,393	1,582,953
Companies and similar organisations	2,118,830	2,178,151
Investment Funds	30,077	16,664
Government	764	716
Other	68,731	31,920
	3,855,795	**3,810,404**
Time deposits		
Individuals and unincorporated businesses	2,578,027	2,823,340
Companies and similar organisations	875,582	784,277
Investment Funds	359,911	501,166
Other	228,463	90,729
	4,041,983	**4,199,512**
Total deposits from customers	**7,897,778**	**8,009,916**

Deposits from customers include accrued interest in the amount of HRK 22,101 thousand (31 December 2020: HRK 21,153 thousand).

NOTE 14 – BORROWINGS

	31 December 2021	31 December 2020
Foreign banks		
-in foreign currency	293,183	-
HBOR borrowings	470,148	395,294
Croatian National Bank	346,626	343,972
	1,109,957	**739,266**

Borrowings include accrued interest in the amount of HRK 10,132 thousand (31 December 2020: HRK 7,138 thousand). Borrowings in 2021. include newly received loan from Sberbank Europe in amount of 293,183 HRK (31 December 2020 HRK 0) with maturity in September 2024 and interest rate 3M EURIBOR + 2.31%. In 2020 Bank had received 150 million HRK borrowing from Craotian National Bank with interest rate 0,25% and maturity in March 2025. The rest of the borrowings relate to loans drawn from credit lines with HBOR and CNB. As at 31 December 2021, there were 113 million HRK of available and not used facilities from Sberbank Europe AG (2020: 113 million HRK).

(All amounts in HRK thousands unless otherwise stated)

NOTE 14 – BORROWINGS (CONTINUED)

	1 January 2021	Cash flow	Foreign exchange movement	31 December 2021
Short – term borrowings	3,502	-	-	3,502
Long – term borrowings	735,764	370,547	144	1,106,455
Total borrowings	**739,266**	**370,547**	**144**	**1,109,957**

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

NOTE 15 – SUBORDINATED LIABILITES

In 2021 and 2020 the Bank did not receive new subordinated loans.

As at 31 December 2021 and 31 December 2020 subordinated loans are as follows:

	1 January 2021	Cash flow	Foreign exchange movement	31 December 2021
Short – term liabilities	-	-	-	-
Long – term liabilities	203,640	(1,075)	539	203,104
Total liabilities	**203,640**	**(1,075)**	**539**	**203,104**

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

(All amounts in HRK thousands unless otherwise stated)

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

	31 December 2021	31 December 2020
Derivative financial instruments	21	2,456

The Bank uses over the counter ("OTC") currency forwards and embedded currency options. Currency forwards represent future commitments to purchase foreign and domestic currency. Neither of these instruments qualifies for hedge accounting in accordance with IFRS 9.

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

	Notional amount 31 December 2021		Notional amount 31 December 2020		Fair values 31 December 2021		Fair values 31 December 2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading								
Currency forwards	80,942	80,567	1,224,582	1,224,075	396	21	2,676	2,456
Fair value of derivatives					**396**	**21**	**2,676**	**2,456**

As at 31 December 2021 the Bank had outstanding currency forwards with maturity in range from 05.01.2022. to 01.02.2022. (31 December 2020: Bank had autstanding currency forwards with maturity in range from 07.01.2021 to 30.12.2021.)

NOTE 17 – PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2021	31 December 2020
Provisions for off-balance-sheet credit risk exposure		
Off-balance-sheet provisions	5,607	13,553
	5,607	***13,553***
Provisions for legal cases *(i)*	140,919	63,583
Provisions for CHF conversion	-	1,124
Other provisions	11,450	13,266
Total	**157,976**	**91,525**

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 17 – PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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

	2021	2020
Balance at 1 January	**11,295**	**5,638**
Charge to income statement (Note 27)	2,067	7,447
Provisions utilised during the year (Note 27)	(8,590)	(1,790)
Balance at 31 December	**4,772**	**11,295**

b) Changes in provisions for performance guarantees

	2021	2020
Balance at 31 December	**2,258**	**2,070**
Charge to income statement (Note 27)	2,869	4,317
Provisions utilised during the year (Note 27)	(4,292)	(4,129)
Balance at 31 December	**835**	**2,258**

c) Changes in provisions for court cases

	2021	2020
Balance at 1 January	**63,583**	**37,707**
Charge to income statement	134,625	30,771
Decrease in provisions for court cases settlements	(57,289)	(4,895)
Balance at 31 December	**140,919**	**63,583**

d) Changes in other provisions

	2021	2020
Balance at 1 January	**13,266**	**13,490**
Charge to income statement (Note 27)	9,207	9,117
Decrease in provisions for court cases settlements	(11,023)	(9,341)
Balance at 31 December	**11,450**	**13,266**

(All amounts in HRK thousands unless otherwise stated)

NOTE 18 – OTHER LIABILITIES

a) Other liabilities	31 December 2021	31 December 2020
Lease liabilities	63,945	75,037
Liabilities to customers for loan prepayments	46,858	40,264
Liabilities for pledged escrow accounts from customers	35,235	14,491
Trade payables (domestic and foreign)	9,400	18,850
Accruals for purchased intangible assets (invoice not yet received)	8,990	10,428
Salaries	8,380	8,065
Accruals for administrative expenses	7,452	7,545
Employee bonuses and retirement compensation	2,238	2,360
Other liabilities	19,303	19,573
	201,801	**196,613**

b) Lease liabilities	2021	2020
Short-term liabilities	410	53
Long-term liabilities	63,535	74,984
	63,945	**75,037**

(All amounts in HRK thousands unless otherwise stated)

NOTE 18 – OTHER LIABILITIES (CONTINUED)

c) Debt reconciliation

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

	Liabilities from financial isntruments	Lease liabilities	Total debt	Cash and cash equivalents	Net debt
Balance at 1 January 2020	**(9,572,811)**	**(83,497)**	**(9,656,308)**	**2,625,922**	**(7,030,386)**
Cash flow	37,290	13,776	51,066	(226,092)	(175,026)
Interest accrued	(55,536)	(2,607)	(58,143)	-	(58,143)
New lease contracts	-	(2,709)	(2,709)	-	(2,709)
Balance at 1 January 2021	**(9,591,057)**	**(75,037)**	**(9,666,094)**	**2,399,830**	**(7,266,264)**
Cash flow	105,503	13,411	118,914	22,935	141,849
Interest accrued	(42,393)	(2,199)	(44,592)	-	(44,592)
New lease contracts	-	(120)	(120)	-	(120)
Balance at 31 December 2021	**(9,527,947)**	**(63,945)**	**(9,591,892)**	**2,422,765**	**(7,169,127)**

NOTE 19 – INTEREST INCOME

a) Analysis by source

	2021	2020
Individuals	242,351	238,750
Companies	67,904	68,948
Other	18,315	21,922
Banks	403	745
	328,973	**330,365**

b) Analysis by product

	2021	2020
Loans and advances to customers	321,381	320,679
FVOCI debt securities	7,189	8,941
Loans and advances to banks	403	745
	328,973	**330,365**

(All amounts in HRK thousands unless otherwise stated)

NOTE 20 – INTEREST EXPENSE

a) Analysis by recipient

	2021	2020
Banks	20,558	26,612
Individuals	21,812	20,654
Companies	3,943	4,849
Other	8,743	10,215
	55,056	**62,330**

b) Analysis by product

	2021	2020
Deposits	42,207	49,016
Borrowings	7,000	6,918
Subordinated liabilities	5,849	6,396
	55,056	**62,330**

NOTE 21 – FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and commission income	**2021**	**2020**
Analysis by source		
Individuals	57,734	53,209
Corporate	33,694	27,569
Banks	1,561	1,130
	92,989	**81,908**

(All amounts in HRK thousands unless otherwise stated)

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

	2021	2020
Analysis by product		
Cash based payment transactions	17,147	17,360
Credit card - payment transaction fees	15,141	12,121
Non-cash-based payment transactions	15,001	13,135
Account maintenance fees	14,805	13,884
Insurance policies	10,826	9,091
Letters of credit, guarantees and unused loan facilities	6,482	5,036
Overdraft accounts – payment transactions fees	533	398
Fee for unused credit lines	2,983	3,276
Commision fee on sale of investment funds shares	2,266	2,310
Foreign payment transactions	2,007	1,618
Other fees and commissions	5,798	3,679
	92,989	**81,908**

b) Fee and commission expense

	2021	2020
Analysis by recipient		
Banks	12,938	14,018
Corporate	5,789	5,102
Domestic payments service agency	5,911	5,745
	24,638	**24,865**

	2021	2020
Analysis by product		
Domestic payment transactions	10,244	9,596
Credit cards	8,075	6,913
Foreign payment transactions	2,076	4,141
Credit risk protection	-	212
Other	4,243	4,003
	24,638	**24,865**

(All amounts in HRK thousands unless otherwise stated)

NOTE 22 – GAINS LESS LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
Net trading gains on debt securities	804	876
Net (losses) from non-trading securities at fair value through profit or loss	-	(26,757)
	804	**(25,881)**

NOTE 23 - GAINS LESS LOSSES FROM TRADING IN FOREIGN CURRENCIES

	2021	2020
Foreign exchange spot trading gains	13,641	11,201
Net trading gains/(losses) from currency derivatives	4,198	(8,376)
	17,839	**2,825**

NOTE 24 -PROVISIONS AND IMPAIRMENT FOR NON-FINANCIAL ASSETS

Provision and impairment charges

	Note	2021	2020
Provisions for court cases		163,478	30,771
Other provisions		7,934	7,385
Imapirment of non financial assets		-	1,226
		171,412	**39,382**

Provision and impairment reversals	**Note**	**2021**	**2020**
Provisions for court cases		(86,141)	(4,045)
Other provisions		(10,883)	(9,332)
		(97,024)	**(13,377)**

(All amounts in HRK thousands unless otherwise stated)

NOTE 25 – ADMINISTRATIVE EXPENSES

	2021	**2020**
Depreciation and amortisation (Note 10)	36,369	35,553
Electronic data processing costs (including consultancy and maintenance)	25,495	24,042
Payment upon court case verdicts	11,459	764
Marketing and entertainment	11,086	9,704
Other expenses for business premises	7,219	6,916
Material and services	7,187	7,306
Professional fees	6,206	4,620
Savings deposit insurance expenses	3,134	18,372
Operating lease rentals for business premises	2,714	2,960
Operating lease rentals for equipment and furniture	617	191
Other expenses	14,410	12,886
	125,896	**123,314**

Professional fees include among others fee for audit services as well additional non-audit services provided by auditor to the Bank and which relates to quarterly reviews of reporting packages used for reporting to the ultimate owner of the Bank. Savings deposit insurance expenses decreased due to the fact that Croatian Deposit Insurance Agency (HAOD) terminated the collection of deposit insurance premiums since its level has reached the target level of 1 + 1.5%, or 2.5%.

NOTE 26 – PERSONNEL EXPENSES

	2021	**2020**
Net salaries	56,477	54,707
Expenses for compulsory pension insurance	16,404	16,265
Expenses for compulsory health insurance	13,742	13,999
Taxes and surtaxes	10,460	12,844
Other personnel costs	5,164	2,493
	102,247	**100,308**

The number of employees as at 31 December 2021 was 478 (31 December 2020: 480).

(All amounts in HRK thousands unless otherwise stated)

NOTE 27 – CREDIT LOSS ALLOWANCE

	Note	2021	2020
ECL Charges			
Loans and advances to customers	7 (b)	303,429	203,518
Accrued interest	7 (b)	6,442	3,986
Other assets	7 (b)	4,098	2,610
Balances with CNB and other banks		1,551	256
FVOCI debt instruments		79	20
Off-balance-sheet items	17 (a,b)	4,936	11,764
		320,535	***222,154***
ECL (Reversals)/credit			
Loans and advances to customers	7 (b)	(281,911)	(118,685)
Accrued interest	7 (b)	(5,615)	(3,418)
Other assets	7 (b)	(1,353)	(864)
FVOCI debt instruments		(114)	-
Off-balance-sheet items	17 (a,b)	(12,882)	(5,919)
Balances with CNB and other banks		-	(215)
Written off loans		(1,629)	(1,473)
		(303,504)	***(130,574)***
Credit loss allowance		**17,031**	**91,582**

(All amounts in HRK thousands unless otherwise stated)

NOTE 28 – INCOME TAX

a) Income tax expense recognised in the income statement

	2021	2020
Current income tax	-	-
Deferred income tax	9,353	11,482
Income tax for the period	**9,353**	**11,482**

b) Reconciliation of the accounting profit and tax as of 31 December 2021

	2021	2020
Accounting profit/(loss) before tax	**42,852**	**(24,179)**
Income tax at rate 18% (2020: 18%)	7,713	(4,352)
Effect of non-deductible expenses	132	5,608
Effect of non-taxable income	(76)	(71)
Deffered taxes from temporary differences	5,496	4,526
Utilisation of previously unrecognised tax loss carry forwards	(13,265)	(5,711)
Unrecognised tax loss carry forwards for which deffered tax asset was previously recognised	9,353	11,482
Total income tax expense	**9,353**	**11,482**
Effective income tax rate	**21,83%**	**(47,49)%**

Movemet of tax losses

	2021	2020
Tax losses from previous periods	**(160,314)**	**(193,911)**
Utilisation of tax losses for which deffered tax asset was not utilised	73,691	31,721
Loss on right of tax losses to be transfered to next periods	-	1,876
Tax losses carried forward	**(86,623)**	**(160,314)**
Deffered tax assets at rate of 18% (2020.: 18%)	(15,592)	(28,857)
Unrecognised deffered tax assets	(12,248)	(6,791)
Recognised deffered tax assests	(3,344)	(10,661)

As of 31 December 2021 the amount of deferred tax assets related to unused tax losses carried forward was 3,344 thousand HRK. The expiry date for the amount of 3,344 thousand HRK is end of 2022.

(All amounts in HRK thousands unless otherwise stated)

NOTE 28 – INCOME TAX (CONTINUED)

c) Movement in deferred tax assets

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

	Deferred tax on revaluation of FVOCI	**Deferred tax on disallowed provisions**	**Deferred tax on loan origination fees**	**Unrealised loss on financial instruments and impairment of fixed assets**	**Deferred tax income (unused tax losses carried forward)**	**Total deferred tax assets/ (liabilities)**
Balance at 1 January 2020	**(2,814)**	**6,728**	**1,591**	**961**	**34,198**	**40,664**
Deferred tax increase/ (charge) in income statement		618	(38)	3,940	(16,002)	(11,482)
Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised, recognised in other comprehensive income	(440)					(440)
Balance at 31 December 2020	**(3,254)**	**7,346**	**1,553**	**4,901**	**18,196**	**28,742**
Deferred tax increase/(charge) in income statement		9,745	(279)	(3,967)	(14,852)	(9,353)
Deferred tax on gains and losses on changes in fair value of FVOCI financial assets, net of amounts realised, recognised in other comprehensive income	1,695					1,695
Balance at 31 December 2021	**(1,559)**	**17,091**	**1,274**	**934**	**3,344**	**21,084**

(All amounts in HRK thousands unless otherwise stated)

NOTE 29 – SHARE CAPITAL AND OTHER RESERVES

At 31 December 2021	Number of shares issued	Total share capital
Ordinary registered shares at HRK 1,000 each	615,623	615,623
		615,623

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

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

The shareholders structure is as follows:

	% of ownership
	31 December 2021
Sberbank Europe AG, Austria	100.00
	100.00

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 29 – SHARE CAPITAL AND OTHER RESERVES (CONTINUED)

a) Regulatory capital

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

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

	31 December 2021 (unaudited)	**31 December 2020 (unaudited)**
	Basel III	**Basel III**
Tier 1 capital		
Share capital	615,623	615,623
Share premium	915,045	915,045
Retained earnings/(losses) – not including profit for the year	(389,693)	(354,032)
Net Profit/(Loss) for the year	33,499	(35,661)
Fair value reserves	7,109	14,830
Legal, statutory and other reserves	20,311	20,311
Deductions:	(67, 502)	(115,642)
- Intangible assets (part of leasehold improvements presented above as fixed assets is included in this position in accordance with local regulatoray requirement)	(63,341)	(96,513)
- Deferred tax assets (which depend on future profitability and which do not arise from temporary differences)	(3,348)	(18,196)
- Value adjustments due to the requirements for prudent valuation	(813)	(933)
Other transitional adjustments (unrealised gains on FVOCI securities)	-	-
Total qualifying Tier 1 capital	**1,134,392**	**1,060,474**
Subordinated liabilities included in regulatory capital (excluding interest)	202,758	188,274
Total qualifying Tier 2 capital	**202,758**	**188,274**
Total regulatory capital	1,337,150	1,248,748
Capital adequacy ratio according to CNB requirements		
Risk weighted assets		
Total risk-weighted assets and other risk exposures	**6,958,775**	**7,022,436**
Capital adequacy ratio	**19,21**	**17,81**

During 2021 and 2020 the Bank' regulatory capital was compliant with the Basel III regulatory framework.

(All amounts in HRK thousands unless otherwise stated)

NOTE 29 – SHARE CAPITAL AND OTHER RESERVES (CONTINUED)

b) Other reserves

	31 December 2021	31 December 2020
Legal reserve	6,513	6,513
Other reserves created in accordance with the Statute	13,798	13,798
	20,311	**20,311**

Legal reserves

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

Other reserves created in accordance with the statute

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 30 – FAIR VALUE RESERVES

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

	2021	**2020**
Balance at 1 January		
Gross fair value reserve	*18,085*	*15,639*
Deferred tax	*(3,255)*	*(2,815)*
	14,830	12,824
Net fair value reserve		
Net (losses)/gains from change in fair value of FVOCI financial assets	(9,380)	2,868
Deferred tax (charge)/release on net losses from change in fair value of FVOCI financial assets	1,695	(520)
Net (charge) on disposal of FVOCI financial assets - transfer to income statement	-	(442)
Deferred tax gain on net gains transferred to income statement on disposal of FVOCI financial assets – transfer to income statement	-	80
Net credit loss allowance (charge)/credit recognised in profit or loss	(36)	20
Total net change in period trough OCI	**(7,721)**	**2,006**
Balance at 31 December		
Gross fair value reserve change	*8,669*	*18,085*
Deferred tax change	*(1,560)*	*(3,255)*
Net fair value reserve	**7,109**	**14,830**

(All amounts in HRK thousands unless otherwise stated)

NOTE 31 – COMMITMENTS AND CONTINGENCIES

a) Off-balance-sheet exposure without performance guarantees

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees	228,237	6,204	-	**234,441**
Letters of credit	2,711	11,988	-	**14,699**
Undrawn commitments	409,116	7,567	3,049	**419,732**
	640,064	**25,759**	**3,049**	**668,872**
Less:				
Off-balance-sheet credit loss allowance	*2,647*	*914*	*1,212*	***4,773***
Total credit loss allowance (Note 17 (a))	**2,647**	**914**	**1,212**	**4,773**
	637,417	**24,845**	**1,837**	**664,099**

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

b) Off-balance-sheet exposure – performance guaratnees

	31 December 2021	**31 December 2020**
Performance guarantees	255,845	200,198
	255,845	**200,198**
Less:		
Off-balance-sheet credit loss allowance	*835*	*2,258*
Total credit loss allowance (Note 17 (a))	**835**	**2,258**
	255,010	**197,940**

NOTE 31 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

c) Legal proceedings

Legal proceedings have been filed against the Bank in a number of cases. For them, based on the advice of legal experts, provisions have been allocated in the financial reports. The "Potrošač" consumer protection association has filed in 2012 legal proceedings against a total of eight Croatian banks (including Bank.), claiming that the consumers who in the period 2004 - 2008 have applied for CHF indexed loans: i) have not been adequately informed by the banks of all the risks associated with such loans, and ii) that the variable interest rate in these loan agreements was illegal. The court of first instance in Zagreb passed on July 4, 2013 the verdict in favour of the claimant "Potrošač". Based on the evidence presented by the Bank in the initial and in the appeal proceedings, the High Commercial Court fully rejected on 4 July 2014 the claim against Bank In the next and expected step, the "Potrošač" Association submitted on August 22, 2014 an application for a review of the verdict at the Supreme Court against eight Croatian banks (including Bank). Bank filed on September 5, 2014 its statement of defence to the Supreme Court. The Supreme Court rejected the review (appeal) on April 9, 2015, thus consequently all the ordinary and extraordinary legal remedies have been exhausted and all claims and accusations against Bank were fully discarded. The “Potrošač” Association then filed a constitutional complaint to the Constitutional Court of the Republic of Croatia against the verdict of the Supreme Court. On December 20, 2016 the Constitutional Court published the decision in the proceeding initiated by the “Potrošač” Association against the decision of the Supreme Court. The Constitutional Court partially accepted the lawsuit of the “Potrošač” Association, revoking the judgment of the Supreme Court. The proceeding was continued at the Supreme Court that on October 3, 2017 rendered a ruling that the previous decision of the High Commercial Court in this matter is revoked in part and that the case was returned to the High Commercial Court for a new decision. The High Commercial Court rendered its ruling (that Bank received on 20 July 2018) in favour of "Potrošač", thus in essence verified the decision of the Commercial Court of Zagreb (first level decision from year 2013) against all eight banks. The Bank filed an appeal against this judgment to the Supreme Court and also a constitutional claim with the Constitutional Court. In October 2018, the “Potrošač” Association filed an appeal against the costs of the proceedings (the Bank replied to that appeal in December 2018). This is related to the non-converted loans. Concerning converted CHF loans, there were CHF consumer loans conversion in accordance and forced with the law conducted in 2015. All banks affected by the CHF conversion initiated Constitutional claim against the “Conversion Law” but it was rejected and Constitutional Court confirmed that “Conversion Law” was in line with the Constitution. In so called “Exemplary Proceeding” the Supreme Court in March 2020., on the legal question whether CHF loan conversion agreement is null and void in the case if in the original CHF loan CHF FX clause and variable interest rate are null and void took a stance that Conversion agreement is legally valid and produce legal effect even if in the original CHF loan CHF FX clause and variable interest rate are null and void. Having in mind that such legal opinion of the Supreme court and Constitutional Court decision are legally binding for all courts in the Republic of Croatia, it means that converted CHF loans are not eligible for law suits. The Bank received the decision of the Supreme Court based on which all appeals, including the one of SBHR, were rejected - the claimant succeeded in this proceeding, the relevant decision was received on 24.09.2019. The Bank then filed a constitutional claim against the decision of the Supreme Court on 23.10.2019. The decision of the Constitutional Court on the lawsuits of the banks was rendered on 03.02.2021 and all the appeals of the banks were rejected. The decision does not affect the current position of the Bank and the amount of the provisions. All disputes related to this decision are categorized in group C. As a consequence of this unfavourable decision, the number of new lawsuits from retail clients regarding CHF loans against Bank increased.

(All amounts in HRK thousands unless otherwise stated)

NOTE 31 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

c) Legal proceedings (continued)

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

This verdict can reduce pressure and significantly alleviate the Bank's position in the individual lawsuits currently pending on the account of the converted loans. In all other individual disputes not covered by this SC ruling, the positions of the parties remain unchanged. In 2021, the number of lawsuits against the Bank with respect to CHF loans has increased, as well as the number of the final decisions against the Bank. This increased number of lawsuits has resulted in higher amount of provisions for court proceedings.

NOTE 32 – CASH AND CASH EQUIVALENTS

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

	Note	31 December 2021	31 December 2020
Current accounts with the Croatian National Bank	5	1,311,614	1,225,562
Cash in hand	5	220,516	202,086
Placements with banks – original maturity up to 3 months	6	890,635	972,182
		2,422,765	**2,399,830**

Current accounts with the Croatian National Bank in Note 5 as of 31 December 2021 and 31 December 2020 include accrued interest. Credit loss allowance for Palcements with banks amounts HRK 4 thousand in 2021(31 December 2020: HRK 13 thousand)

(All amounts in HRK thousands unless otherwise stated)

NOTE 33 – MATURITY ANALYSIS

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

31 December 2021

Assets	**Up to 1 year**	**Over 1 year**	**No contractual maturity**	**Total**
Cash reserves and balances with the Croatian National Bank	2,009,014	-	-	2,009,014
Placements and loans with other banks	890,635	-	-	890,635
Loans and advances to customers	1,768,200	5,363,409	-	7,131,609
Financial assets at fair value through profit or loss	119,513	-	-	119,513
FVOCI financial assets	35,569	658,247	-	693,816
Property and equipment		-	97,345	97,345
Intangible assets		-	102,638	102,638
Deferred tax assets	21,084	-	-	21,084
Other assets	19,936	-	4,049	23,985
Total assets	**4,863,951**	**6,021,656**	**204,032**	**11,089,639**

Liabilities				
Deposits from banks	317,108	-	-	317,108
Deposits from customers	7,270,205	627,573	-	7,897,778
Borrowings	275,342	834,615	-	1,109,957
Subordinated liabilities	140	202,964	-	203,104
Financial liabilities at fair value through profit or loss	21	-	-	21
Provision for liabilities and charges	14,783	143,193	-	157,976
Other liabilities	148,627	53,174	-	201,801
Total liabilities	**8,026,226**	**1,861,519**	**-**	**9,887,745**
Maturity gap	**(3,162,275)**	**4,160,137**	**204,032**	**1,201,894**

(All amounts in HRK thousands unless otherwise stated)

NOTE 33 – MATURITY ANALYSIS (CONTINUED)

31 December 2020

Assets	Up to 1 year	Over 1 year	No contractual maturity	Total
Cash reserves and balances with the Croatian National Bank	1,900,090	-	-	1,900,090
Placements and loans with other banks	972,182	-	-	972,182
Loans and advances to customers	1,954,683	5,043,085	-	6,997,768
Financial assets at fair value through profit or loss	112,035	47,906	-	159,941
FVOCI financial assets	130,855	639,830	-	770,685
Property and equipment		-	119,718	119,718
Intangible assets		-	87,040	87,040
Deferred tax assets		28,742	-	28,742
Other assets	15,370	-	6,231	21,601
Total assets	**5,085,215**	**5,759,563**	**212,989**	**11,057,767**

Liabilities				
Deposits from banks	638,235	-	-	638,235
Deposits from customers	7,280,899	729,017	-	8,009,916
Borrowings	74,083	665,183	-	739,266
Subordinated liabilities	144	203,496	-	203,640
Financial liabilities at fair value through profit or loss	2,456	-	-	2,456
Provision for liabilities and charges	24,198	67,327	-	91,525
Other liabilities	132,931	63,682	-	196,613
Total liabilities	**8,152,946**	**1,728,705**	**-**	**9,881,651**
Maturity gap	**(3,067,731)**	**4,030,858**	**212,989**	**1,176,116**

NOTE 34 – RISK MANAGEMENT

NOTE 34.1 – INTRODUCTION

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

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

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

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

- **Supervisory Board** is responsible for monitoring overall risk position and giving the acceptance of the risk strategy and structure of internal capital adequacy assessment process to the Management Board.
- **Supervisory Board Risk Committee** advises the Supervisory Board on the Bank's overall current and future risk appetite and strategy and assists in overseeing the implementation of that strategy by senior management. The Management Board and Supervisory Board retain overall responsibility for risk management and monitoring.
- **Management Board** is responsible for setting the risk management principles and approving risk strategy and risk management policies.
- **Risk Committee** is responsible for monitoring and decision making in overall risk management within the policies approved by the Management board. Risk Committee supports the Chief risk officer and Management Board by providing comprehensive information about current and potential future risk exposures of the Bank as well as future risk strategy and performance, including determination of risk appetite and tolerance.
- **Asset and Liability Committee** is responsible for decision making in market risk management and liquidity risk management within the policies approved by the Management Board. In the area of risk management, the responsibility of Asset and liability committee is defining the guidelines and recommendations in market and liquidity risk management based on regular detailed analysis of the Bank's risk position.
- **Credit Committee** is responsible for decision making for all segments except citizens in loan and loss provisioning approval process within the defined authorities.
- **6-eyes committee** is responsible for decision making, within its own authorities, regarding the approval of new placements.
- **Distress Asset Committee** is responsible for decision making in regard with problematic and potentially problematic debts/assets.
- **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.

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.1 – INTRODUCTION (continued)

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

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

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

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

NOTE 34.2 - CREDIT RISK

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

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

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

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

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

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

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

RISK MEASUREMENT

Expected credit loss measurement Overview of the ECL principles

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

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

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

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

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

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

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

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

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

RISK MEASUREMENT (continued)

If any of the above criteria are fulfilled, the asset should be classified Stage 2.
A significant increase in credit risk (SICR) is based on the values of the change rating threshold. The internal rating deterioration by 7 and higher notches (relative to the initial rating) is considered to be a SICR factor used in the process of defining the stage.

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

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

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

These three components are defined as follows:

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

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

RISK MEASUREMENT (continued)

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

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

- GDP growth
- Unemployment rates
- CPI
- Retail Sales

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

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

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

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

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

Segments and grouping of homogeneous exposures

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

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

When assessing aggregate credit loss allowance 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 credit loss allowance, credit loss is increased for this difference and then gross carrying amount is written off against loss allowance. Any subsequent recoveries are decreasing loss expense.

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

PORTFOLIO OVERVIEW – CREDIT RISK

Maximum exposure to credit risk

	Notes	2021	2020
Current accounts with the Croatian National Bank and other banks	5, 6	2,086,330	1,643,330
Obligatory reserve with the Croatian National Bank	5	476,884	472,442
Loans to and receivables from banks	6	115,920	554,414
Financial assets at fair value through profit or loss			
- Debt securities	8	119,117	145,020
- Derivative financial instruments	8	396	2,676
Loans and advances to customers	7 (a)	7,131,609	6,997,768
Fair value through other comprehensive income financial assets	9	693,675	770,685
Total credit risk exposure relating to on-balance-sheet assets		**10,623,931**	**10,586,335**

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

	Notes	2021	2020
Financial guarantees	31 (a)	234,441	195,470
Performance guarantees	31 (b)	255,845	200,198
Letters of credit	31 (a)	14,700	12,875
Undrawn commitments	31 (a)	419,732	497,792
Total credit risk exposure relating to off-balance-sheet items		**924,718**	**906,335**
Total credit risk exposure		**11,548,790**	**11,492,670**

The above table represents the maximum direct credit risk exposure of the Bank as at 31 December 2021 and 31 December 2020, 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, 61.75% of the total maximum exposure is derived from loans and advances to customers (2020: 60.89%), while 1.09% relates to loans and advances to banks (2020: 5.24%).

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

CONCENTRATION OF CREDIT RISK

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

Concentration by client/counterparty

From the total amount of performing loans and advances and off balance towards companies in Corporate and SME segment (as defined in Corporate and SME Credit Policy and Risk Appetite Statement), the top 20 exposures account for 48.5% 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 2021 amounted to HRK 160.667 thousand (31 December 2020: HRK 172.207 thousand).

Concentration by geographical region

The majority of the lending portfolio of the Bank is concentrated in the Republic of Croatia (99.34 % as of 31 December 2021) 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 2021 was 39.83% (end of 2020: 41.94%).

Concentration of credit risk
The Bank has a diversified lending portfolio that covers various industries, with the largest portion being with individuals, which represents 63.73 % (2020: 61.73%) of the credit portfolio at the year end.

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

	31 December 2021		**31 December 2020**	
Individuals	4,757,771	63.73%	4,542,199	61.73%
Trade	551,130	7.38%	644,719	8.76%
Industry	1,011,285	13.55%	911,239	12.38%
Project finance	326,388	4.37%	278,550	3.79%
Property operations and business services	29,191	0.39%	23,974	0.33%
Transport, storage and communications	102,459	1.37%	62,616	0.85%
Other services	687,184	9.21%	894,424	12.16%
	7,465,408	**100.00%**	**7,357,721**	**100.00%**

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

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 2021	31 December 2020
Current accounts with the Croatian National Bank	5	1,311,614	1,225,562
Obligatory reserve with the Croatian National Bank	5	478,948	472,984
Republic of Croatia government bonds	8,9	715,020	764,656
Loans and advances to government		96,539	161,386
Other assets		2,524	2,293
Deferred tax assets		21,102	28,742
Decreased by:			
Deposits from the Republic of Croatia		(764)	(716)
		2.624.983	**2,654,907**
Off-balance-sheet commitments		-	-

As at 31 December 2021 total exposure towards the Republic of Croatia amounted to 24% of total assets (2020: 24%).

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 and loans with other banks, FVOCI instruments, exposure toward CNB and other):

		Exposure 31.12.2021	
HRK thousand	**Total**	**On Balance**	**Off Balance**
Gross carrying amount	11,765,663	10,840,946	924,717
Credit loss allowance	(342,135)	(336,528)	(5,607)
Book value	11,423,528	10,504,418	919,110

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).

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

According to the classes of financial assets, the significant portion of financial assets relates to loans and advances to individuals and unincorporated business (47.70% of the exposure) and companies and similar organisations (26.17% of the exposure).According to the credit quality of the portfolio, the majority of customers can be regarded as having good creditworthiness (88,89% of customers is risk category medium or low). Total past due amounts (not impaired loans) represent in total 7.48 % of the total exposure as of 31 December 2021 (31 December 2020: 7.78%). 6.85 % (31 December 2020: 7.27%) of total loans and advances, out of the total past due amount, relates to past due amounts of individuals and unincorporated business and 0.63% (31 December 2020: 0.50%) to past due amounts from companies and similar organisations. 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	2021						2020
	Stage 1	Stage 2	Stage 3	POCI	Off Balance	Total	Total
Low credit risk	5,985,304	56,122	210	-	371,499	6,413,135	6,986,768
Moderate credit risk	3,359,540	361,770	482	-	522,262	4,244,054	3,539,100
High credit risk	372,159	349,287	6,394	-	28,306	756,146	645,776
Default	-	-	347,379	-	2,642	350,021	326,965
Without internal credit rating	1,152	737	408	-	8	2,305	207,571
Gross carrying amount	**9,718,155**	**767,916**	**354,873**	**-**	**924,717**	**11,765,661**	**11,706,180**
Credit loss allowance	(40,873)	(40,354)	(255,302)	-	(5,608)	(342,137)	(374,758)
Net carrying amount	**9,677,280**	**727,564**	**99,571**	**-**	**919,109**	**11,423,524**	**11,331,422**

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	2021					
	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	828,886	1,887,101	2,575,642	693,675	371,410	6,356,714
Moderate credit risk	61,703	-	3,297,837	-	505,212	3,864,752
High credit risk	-	-	372,159	-	17,892	390,050
Default	-	-	-	-	-	-
Without internal credit rating	-	-	1,152	-	6	1,158
Gross carrying amount	**890,589**	**1,887,101**	**6,246,790**	**693,675**	**894,520**	**10,612,675**
Credit loss allowance	(4)	(2,064)	(38,146)	(661)	(3,462)	(44,337)
Net carrying amount	**890,585**	**1,885,037**	**6,208,644**	**693,014**	**891,058**	**10,568,338**

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

HRK thousand	**2020**					
	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	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**
Credit loss allowance	(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**

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	**2021**				
	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	-	-	56,122	64	56,186
Moderate credit risk	50	-	361,720	16,982	378,753
High credit risk	2	-	349,285	10,139	359,426
Without internal credit rating	3	-	734	2	739
Gross carrying amount	**55**	**-**	**767,861**	**27,187**	**795,104**
Credit loss allowance	-	-	(40,352)	(934)	(41,286)
Net carrying amount	**55**		**727,509**	**26,253**	**753,818**

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**
Credit loss allowance	(12)	-	(65,592)	(993)	(66,597)
Net carrying amount	**1,370**	-	**581,569**	**20,150**	**603,090**

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

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	2021				
	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	-	-	210	26	236
Moderate credit risk	-	-	482	68	550
High credit risk	-	-	6,394	275	6,669
Default	-	-	347,379	2,642	350,021
Without internal credit rating	-	-	408	-	408
Gross carrying amount	**-**	**-**	**354,873**	**3,011**	**357,884**
Credit loss allowance	-	-	(255,302)	(1,212)	(256,514)
Net carrying amount	**-**	**-**	**99,571**	**1,799**	**101,370**

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**
Credit loss allowance	-	-	(213,370)	(834)	(214,204)
Net carrying amount	**-**	**-**	**140,093**	**1,225**	**141,319**

Bank has no financial asset classified purchased or originated credit-impaired financial assets (POCI) as at 31 December 2021.

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

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

31 December 2021	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	482,066	1,849,914	222,471	54,372	1,218	2,610,041	7(a)	62,625
- individuals and unincorporated business	2,153,606	1,805,298	505,369	293,007	491	4,757,771	7(a)	683,722
- other	92,443	4,564	-	-	588	97,595	7(a)	6
Placements and loans with other banks	828,620	62,016	-	-	-	890,636	6	-
Fair value through other comprehensive income financial assets	693,816	-	-	-	-	693,816	9	-
Off-balance-sheet items	371,499	522,262	28,306	2,642	8	924,717		-
	4,622,050	**4,244,054**	**756,146**	**350,021**	**2,305**	**9,974,576**		**746,353**

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 and loans with other banks	939,061	33,121	-	-	-	972,182	6	-
Available-for-sale 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**

The total amount of past due not impaired financial assets as at 31 December 2021 amounts to 746,353 thousand HRK (31 December 2020: 778,087 thousand HRK).

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

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

The table below represents the aging structure of past due amounts (not from impaired loans) per classes of financial assets. Amounts presented are total outstanding exposures according to the worst delay in payment under each facility. As of 31 December 2021 the largest portion, 91.61 %, of past due amounts relate to individuals (31 December 2020: 93.51%) and the remaining part of 8.39% (31 December 2020: 6.49 %) relates to companies and others.

31 December 2021	**Less than 30 days**	**31 to 90 days**	**91 to 365 days**	**More than 365 days**	**Total**
Past due exposures to:					
- companies	48,079	14,508	35	2	62,624
- individuals	602,988	73,626	6,571	537	683,722
- other	6	-	-	-	6
	651,073	**88,134**	**6,606**	**539**	**746,352**

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**

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

FORBEARANCE EXPOSURE

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

The forbearance status is differentiated in:

- Performing forborne;
- Non-performing forborne.

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

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

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

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

In the following table forborne exposures of Bank as of 31 December 2021 are presented:

		Forbearance status as of 31 Dec 2021	
HRK thousand	**Gross carrying amount of exposures with forbearance measures**	**Performing exposures with forbearance measures**	**Non-performing exposures with forbearance measures**
Loans and advances	229,599	147,482	82,117

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

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

NON PERFORMING LOAN PORTFOLIO / NPL

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

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

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

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

The table below shows the development of the non-performing portfolio of year 2021 in comparison to year 2020:

	Total exposure	
HRK thousand	**31.12.2021**	**31.12.2020**
NPL volume	354,874	353,463

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

COLLATERAL

The Bank considers the three main classes for collaterals:

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

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

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

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

	31 December 2021		31 December 2020	
	Exposure amount	Unsecured share of exposure	Exposure amount	Unsecured share of exposure
Risk category - low	4,622,049	79.75%	5,254,388	82.96%
Risk category - medium	4,244,054	65.93%	3,572,221	62.62%
Risk category - high	756,146	63.47%	645,768	72.91%
Default	350,021	86.39%	326,976	73.76%
Without internal credit rating	2,305	100.00%	207,570	71.90%
Total	**9,974,576**	**72,87%**	**10,006,923**	**74.76%**

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.2 - CREDIT RISK (continued)

Offsetting financial assets and financial liabilities

31 December 2021

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	396	-	19,309	-	**19,706**
Total	**396**	**-**	**19,309**	**-**	**19,706**

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	(21)	-	-	-	**(21)**
Received repo loans/ Loans with financial insurance	346,626	-	-	(386,688)	**(40,062)**
Total	**346,605 -**	**-**	**-**	**(386,688)**	**(40,083)**

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)**

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.3 - LIQUIDITY RISK

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

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

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

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

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

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

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

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

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

LCR regulatory limit is set to 100% for SBHR, and internal limit for LCR is set at 130%. During 2021 the Bank was compliant with LCR limit.

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

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.3 - LIQUIDITY RISK (continued)

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

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

The results of stress test for year 2021 and 2020 are disclosed below:

31 December 2021

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	1,415,909	1,273,700	648,433	(129,835)	(1,145,430)
Market scenario		1,386,713	1,304,939	913,666	389,013	(292,902)
Combined scenario		1,258,449	1,029,930	375,663	(482,336)	(1,592,021)

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)

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) 2019/876 amending Regulation (EU) no. 575/2013, and is designed to improve the medium and long term liquidity in a way to limit the possibility of short-term financing, and encourage the improvement of maturity structure of assets and liabilities. Internal limit for NSFR is set at 106%.

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.3 - LIQUIDITY RISK (continued)

Analysis of the financial liabilities

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

2021
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	25,369	129,008	162,731	-	-	317,108
Deposits from customers	3,879,630	654,731	2,735,844	414,718	212,855	7,897,778
Borrowings	-	27,062	248,280	517,796	316,819	1,109,958
Lease liability	-	2,744	8,027	15,150	38,024	63,945
	3,904,999	813,545	3,154,882	947,664	567,698	9,388,789

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	32,021	441,516	164,698	-	-	638,235
Deposits from customers	3,832,716	730,539	2,717,645	446,472	282,544	8,009,916
Borrowings	-	12,784	61,298	355,327	309,856	739,265
Lease liability	-	2,801	8,554	20,797	42,885	75,037
	3,864,737	1,187,640	2,952,195	822,596	635,285	9,462,454

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

2021

ths HRK	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Guarantees	488,302	-	-	-	-	488,302
Letters of credit	-	5,380	9,288	-	-	14,668
Undrawn commitments	416,139	-	-	-	-	416,139
Total at 31 December 2021	904,440	5,379	9,288	-	-	919,109

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	879,96	10,036	2,784	-	-	892,782

NOTE 34.4 – MARKET RISK

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

NOTE 34.4.1 MARKET RISK –TRADING BOOK

Market risk management of the Trading book assets and liabilities is based on the methods prescribed by CNB and EBA, guidelines prescribed on the group level and internal policies.
For each type of financial instruments in the trading portfolio, the appropriate limits had been set depending on the risks that financial instruments are exposed to.
Volume limits and limits for maximum loss are prescribed and are monitored daily.
At the end of 2021, 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) 2019/876 amending REGULATION (EU) No 575/2013.

NOTE 34.4.2 MARKET RISK BANKING BOOK

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

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

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

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 34– RISK MANAGEMENT (CONTINUED)

NOTE 34.4.2 MARKET RISK BANKING BOOK (continued)

Sensitivity of the net interest income on changes of interest rates

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income for one year. The tables below provide overview of sensitivity of the Bank's earnings to ±200 bp for EUR and to ±200bp for HRK reasonably possible movements in interest rates. Sensitivity to other currencies is not considered due to a non material effect on interest income.

2021

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	2,039	-200	(2,978)
EUR	+200	(7,135)	-200	4,684

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)

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

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 34 – RISK MANAGEMENT (CONTINUED)

NOTE 34.4.2 MARKET RISK BANKING BOOK (continued)

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit, investment and other trading activities. The Bank manages its currency risk by setting principles and a limit structure for foreign currency exposures, whilst ensuring continuous monitoring of the exposures against the limits set. According to the legislation and internally set limits, the currency risk exposure is regularly monitored for each currency and for the overall balance and off balance sheet positions that are denominated or linked to foreign currency. The Bank directs its business activities by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining the daily business activities in accordance with market movements.

	31 December 2021			
Assets	HRK	EUR	Other	Total
Cash reserves and balances with the Croatian National Bank	1,800,209	205,147	3,658	2,009,014
Placements and loans with other banks	2,140	727,774	160,721	890,635
Financial assets at fair value through profit or loss	112,787	6,726	-	119,513
Loans and advances to customers	2,912,091	4,201,565	17,953	7,131,609
Financial assets at fair value through other comprehensive income	325,686	368,130	-	693,816
Total assets	**5,152,913**	**5,509,342**	**182,332**	**10,844,587**
Liabilities				
Deposits from banks	146,857	170,251	-	317,108
Financial liabilities at fair value through profit or loss	21	-	-	21
Deposits from customers	3,068,010	4,646,797	182,971	7,897,778
Other borrowings	566,276	543,680	-	1,109,957
Subordinated liabilities	203,104	-	-	203,104
Total liabilities	**3,984,268**	**5,360,729**	**182,971**	**9,527,968**

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

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Sensitivity on currency changes

Sensitivity to currency risk is calculated as the effect of the unfavourable change in foreign exchange applied on the exposure. The table below shows the currencies to which the Bank has significant exposure, and the effect on the income statement of the change in these currencies applied to the overall Bank's position.

	31 December 2021			31 December 2020	
	Change in currency rate	**Income statement effect (in ths. HRK)**		**Change in currency rate**	**Income statement effect (in ths. HRK)**
EUR	5%	(488)	EUR	5%	(6,579)

NOTE 34.5 OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

All events caused by operational risks regardless of whether they resulted in a loss for the Bank are entered and administrated in the OpRisk database. Based on these data possible additional measures/controls are defined and implemented. The Bank has the Early warning system – Key Risk Indicators (KRI) which was developed on the Group level. Key Risk Indicators are included in the operational risk reports.

NOTE 34.5 OPERATIONAL RISK MANAGEMENT (continued)

In 2021 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 implemented new application for outsourcing management which is in line with ECB and CNB new Guideine on outsourcing.

Bank is performing regular 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 2021. The bank conducts analysis and implement additional controls and measures to reduce fraud cases (related to internal and external frauds). Also there are regular education on fraud management for the emplyees. The calculation of the capital requirement for operational risk (the Bank uses standard approach, according to Basel II regulations) is done on an annual basis and reported to the Group and the CNB.

NOTE 35 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are measured at fair value. Loans and receivables are measured at amortised cost less credit loss allowance. Management believes that the carrying value of these instruments is not significantly different from their fair value. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

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

Bank and customer deposits
For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits are given with variable rate, being the market rate, the management believes there is no significant difference between the fair value of these deposits and their carrying value.

(All amounts in HRK thousands unless otherwise stated)

NOTE 35 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Borrowings

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

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

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

At the end of 2021 the Bank does not have the financial instrument classified in Level 3 category. Instruments that were in Level 3 category by the end of 2020 which consists of depositary receipts and convertible bonds from Fortenova were sold during the 2021.

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

As at 31 December 2021

in ths. HRK	Level 1	Level 2	Level 3
Financial assets held for trading at FVTPL			
Derivatives			
Forward foreign exchange contracts	-	396	-
Debt securities	119,117	-	-
Non-trading financial assets at FVTPL			
Equity instruments	-	-	-
Debt securities	-	-	-
Financial assets at FVOCI			
Debt securities	693,675	-	-
Total assets	**812,792**	**396**	**-**
Financial liabilities held for trading			
Derivatives			
Forward foreign exchange contracts	-	21	-
Total liabilities		**21**	

As at 31 December 2020

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

(All amounts in HRK thousands unless otherwise stated)

NOTE 35 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

During 2021 and 2020 there were no transfers of assets within the fair value hierarchy levels.

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

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

As at 31 December 2020 and 2021 cash reserves and balances with the Croatian National Bank, placements and loans with other banks and loans and advances to customers are measured at amortised cost, but however due to nature of those transactions, contractual cash flows for loans and short-term maturity for cash reserves and placements it is considered that their carrying value approximates their fair value.

As at 31 December 2021		
in ths. HRK	**Carrying value**	**Fair value**
Cash reserves and balances with the Croatian National Bank	2,009,014	2,009,014
Placements and loans with other banks	890,635	890,635
Loans and advances to customers	7,131,609	7,131,609
Total assets	**10,031,258**	**10,031,258**
Deposits from banks	317,108	317,108
Deposits from customers	7,897,778	7,897,778
Other borrowings	1,109,957	1,109,957
Subordinated liabilities	203,104	203,104
Total liabilities	**9,527,947**	**9,527,947**

As at 31 December 2020		
in ths. HRK	**Carrying value**	**Fair value**
Cash reserves and balances with the Croatian National Bank	1,900,090	1,900,090
Placements and loans with other banks	972,182	972,182
Loans and advances to customers	6,997,768	6,997,768
Total assets	**9,870,040**	**9,870,040**
Deposits from banks	**638,235**	638,235
Deposits from customers	8,009,916	8,009,916
Other borrowings	739,266	739,266
Subordinated liabilities	203,640	203,640
Total liabilities	**9,591,057**	**9,591,057**

(All amounts in HRK thousands unless otherwise stated)

NOTE 36 – CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

31 December 2021	Note	Non-trading financial instruments at FVTPL	Trading financial instruments at FVTPL	FVTPL Debt instruments	FVOCI Debt instrument	FVOCI Equity instrument	Amortised cost	**Total carrying amount**
Cash reserves and balances with the Croatian National Bank	5	-	-	-	-	-	2,009,014	**2,009,014**
Placements and loans with other banks	6	-	-	-	-	-	890,635	**890,635**
Financial assets at fair value through profit or loss	8	-	396	119,117	-	-	-	**119,513**
Loans and advances to customers	7	-	-	-	-	-	7,131,609	**7,131,609**
FVOCI financial assets	9	-	-	-	693,675	141	-	**693,816**
Total financial assets		**-**	**396**	**119,117**	**693,675**	**141**	**10,031,258**	**10,844,587**
Deposits from banks	12	-	-	-	-	-	317,108	**317,108**
Financial liabilities at fair value through profit or loss	16	-	21	-	-	-	-	**21**
Deposits from customers	13	-	-	-	-	-	7,897,778	**7,897,778**
Borrowings	14	-	-	-	-	-	1,109,957	**1,109,957**
Provisions for liabilities and charges	17	-	-	-	-	-	157,976	**157,976**
Subordinated liabilities	15	-	-	-	-	-	203,104	**203,104**
Total financial liabilities		**-**	**21**	**-**	**-**	**-**	**9,685,923**	**9,685,944**

(All amounts in HRK thousands unless otherwise stated)

NOTE 36 – CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

31 December 2020	Note	Non-trading financial instruments at FVTPL	Trading financial instruments at FVTPL	FVTPL Debt instruments	FVOCI Debt instrument	FVOCI Equity instrument	Amortised cost	**Total carrying amount**
Cash reserves and balances with the CNB	5	-	-	-	-	-	1,900,090	**1,900,090**
Placements with and loans to other banks	6	-	-	-	-	-	972,182	**972,182**
Financial assets at fair value through profit or loss	8	61,228	2,676	96,037	-	-	-	**159,941**
Loans and advances to customers	7	-	-	-	-	-	6,997,768	**6,997,768**
FVOCI financial assets	9	-	-	-	770,544	141	-	**770,685**
Total financial assets		**61,228**	**2,676**	**96,037**	**770,544**	**141**	**9,870,040**	**10,800,666**
Deposits from banks	12	-	-	-	-	-	638,235	**638,235**
Financial liabilities at fair value through profit or loss	16	-	2,456	-	-	-	-	**2,456**
Deposits from customers	13	-	-	-	-	-	8,009,916	**8,009,916**
Borrowings	14	-	-	-	-	-	739,266	**739,266**
Provisions for liabilities and charges	17	-	-	-	-	-	91,525	**91,525**
Subordinated liabilities	15	-	-	-	-	-	203,640	**203,640**
Total financial liabilities		**-**	**2,456**	**-**	**-**	**-**	**9,682,582**	**9,685,038**

(All amounts in HRK thousands unless otherwise stated)

NOTE 37 – RELATED PARTY TRANSACTIONS

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

Assets	**31 December 2021**	**31 December 2020**
Ultimate parent		
Sberbank of Russia - placements with banks	3,001	8,129
Parent		
Sberbank Europe AG- placements with banks	259,047	574,103
Sberbank Europe AG – other assets	586	608
Other related companies		
Pronam nekrentnine d.o.o. – right-of use asset –(IFRS16)	32,261	35,280
Sberbank Srbija A.D. Beograd- placement with banks	150	164
Sberbank BH d.d. – placement with banks	80	20
Sberbank banka d.d. - placements with banks	31,671	22,334
Sberbank Magyaroszagi ZRT - placements with banks	185	184
Sberbank CZ - placements with banks	1,195	465
Sberbank (Switzerland) AG – placements with banks	10,373	199
	338,549	**641,486**

(All amounts in HRK thousands unless otherwise stated)

NOTE 37 – RELATED PARTY TRANSACTIONS (CONTINUED)

Liabilities	**31 December 2021**	**31 December 2020**
Ultimate parent		
Sberbank of Russia - deposits from banks	66	1,238
Parent		
Sberbank Europe AG - deposits from banks	421,354	416,800
Sberbank Europe AG - other liabilities	3,485	10,700
Sberbank Europe AG- borrowings	203,104	203,640
Other related companies		
Pronam nekretnine d.o.o. - deposits from customers	291	864
Pronam nekretnine d.o.o – other liabilities	25	10
Pronam nekretnine d.o.o – other liabilities (IFRS16)	34,238	36,702
Sberbank banka d.d. - deposits from banks	719	85,256
Sberbank Srbija A.D – deposits from banks	17	-
Sberbank Magyaroszagi ZRT - deposits from banks	2,174	74
Sberbank BH d.d. - deposits from banks	3,513	5,225
Sberbank AD Banja Luka - deposits from banks	1,067	799
Sberbank CZ - deposits from banks	615	720
	670,668	**762,028**

Off-balance-sheet	**31 December 2021**	**31 December 2020**
Parent		
Sberbank Europe AG – undrawn commitments	112,758	113,053
Other related companies		
Sberbank CZ – guarantee received	-	75,369
Sberbank banka d.d. – guarantee received	28,957	26,027
Sberbank Srbija A.D – guarantee issued	474	-
Sberbank BH d.d. - guarantee received	17,782	30,148
	159,971	**244,597**

At 31 December 2021 there were no loans and advances for which guarantees were obtained from Sberbank of Russia, or from Sberbank Europe AG (as presented above).

(All amounts in HRK thousands unless otherwise stated)

NOTE 37 – RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel

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

The key management personnel compensation in 2021 amounted to HRK 9,515 thousand (in 2020 HRK 10,643 thousand) and included gross salaries including benefits in kind. Out of these benefits, in 2021, the Bank made pension contributions into obligatory pension funds for key management personnel in the amount of HRK 552 thousand (2021: HRK 555 thousand).

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

	31 December 2021	31 December 2020
Liabilities		
Key management personnel – deposits from customers	14,835	13,446
Off-balance-sheet		
Key management personnel – undrawn commitments	75	198

Transactions with related parties were as follows:

2021	**SBERBANK EUROPE AG**	**SBERBANK OF RUSSIA**	**Affiliates**	**Key management personnel**	**Total**
Interest and similar income	252	25	20	-	297
Fee and commission income	3	1	378	3	385
Other income	-	-	427	-	427
Total income	**255**	**26**	**825**	**3**	**1.109**
Interest expense	10.050	-	247	27	10.324
Interese expense of IFRS16	-	-	1.536	-	1.536
Depreciation cost (IFRS16)	-	-	2.950	-	2.950
Fee and commission expense	1.731	26	30	1	1.788
Gross salaries and benefits in kind	-	-	-	9.515	9.515
Other expenses	8.748	252	5.175	-	14.175
Total expense	**20.529**	**278**	**9.938**	**9.543**	**40.288**

(All amounts in HRK thousands unless otherwise stated)

NOTE 37 – RELATED PARTY TRANSACTIONS (CONTINUED)

2020	SBERBANK EUROPE AG	SBERBANK OF RUSSIA	Affiliates	Key management personnel	Total
Interest and similar income	72	27	67	-	166
Fee and commission income	2	-	294	2	298
Other income	-	-	440	-	440
Total income	**74**	**27**	**801**	**2**	**904**
Interest expense	14,805	-	931	27	15,763
Fee and commission expense	3,829	24	253	1	4,107
Gross salaries and benefits in kind	-	-	-	10,643	10,643
Other expenses	7,690	535	4,338	-	12,563
Total expense	**26,324**	**559**	**5,522**	**10,671**	**43,076**

During the 12 months of the year 2021 Bank didn’t have any transactions with these related parties: CJSC Sberbank CIB, SIB (Cyprus) limited, Sberbank India, Športsko Društvo Sberbank, Sberbank CIB (UK) Ltd, SBAG IT – Services GmbH, Sberbank Corporate University and Garay Centar Ingatlanforgalmazo. There are no other companies or individual person that could be treated as related party, except those stated above.

NOTE 38 – EVENTS AFTER BALANCE SHEET DATE

After the balance sheet date, the circumstances under which the Bank was operating have changed significantly. The geopolitical situation caused by Russia's invasion of Ukraine has led to significant difficulties in the Bank's operations, which has had a substantial impact on the Bank's liquidity position. At the end of February 2022, the liquidity position had deteriorated so much that it threatened the Bank's ability to meet its liabilities, possibly causing a complete shutdown of the operations of the Bank. Throughout this period, the Bank communicated with the Croatian National Bank (CNB) and all other competent authorities.

On February 26, 2022, the Bank received clear messages from the then-owner Sberbank Europe AG and the then-Supervisory Board that they were unable to participate in resolving the problem and provide support for the Bank's recovery. Without delay, the Bank informed the CNB officially and in writing of its illiquidity and the existence of the circumstances stipulated in the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette Nos. 146/20 and 21/22), indicating that the Bank is failing or is likely to fail. After the European Central Bank also determined that the Bank was failing or was likely to fail due to its liquidity position, the Single Resolution Board urgently decided on a 48-hour moratorium, followed by a resolution scheme which was delivered to the CNB for its implementation in the Republic of Croatia. Based on the instructions of the Single Resolution Board, the CNB first adopted the decision on a moratorium of the payment of all liabilities of the Bank and then, on March 1, 2022, initiated the resolution proceedings over the Bank, applying a resolution instrument which was the sale of all the shares of the Bank and the transfer of ownership to Hrvatska poštanska banka d.d. (HPB). The ultimate controlling party of HPB is the Republic of Croatia. The management of the Bank and the function of all its committees were taken over by the CNB and the resolution management board. The final resolution activities and the preparations for the change of the Bank’s company name and the appointment of the regular committees of the Bank (such as the Supervisory and Management Board, etc.) by the new owner are currently pending.

Considering the financial support of HPB (approved credit line by HPB with HRK 865 million currently in use) following the sale of all shares to HPB, the Bank has managed to a large degree to stabilize its operations, and all of its functions currently operate normally and regularly, and the Bank is meeting all of its liabilities.

The Bank’s exposure towards Russian banks amounts to HRK 1.3 million and 20 million towards Sberbank associacies in Europe that are in the process of liquidation or under protective measures, while exposure towards clients residing in Russia amounts to HRK 1.2 million.

The exposure towards Croatian companies with a significant business activity on the Russian market, i.e. with Russian companies is not significant, and currently no information is available which would indicate that their operations or their debt servicing capacities with respect to the Bank could be at risk. Considering that situation in Ukraine has been rapidly evolving the Bank does not have a clear visibility on potential impacts that such development would have on the overall economy and consequently on the clients’ performance and ability to service debts, therefore, the Bank has not yet estimated a potential impact on the expected credit losses for Q1 of 2022. Following the facts presented above it is considered that there is no significant doubt over Bank’s ability to continue going concern.

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

Pursuant to the Decision of the Croatian National Bank's on structure and content of bank's annual financial statements (NN 42/2018,122/2020 and 119/2021) bellow we present the required forms for the Bank for the year ended 31 December 2021 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies is given in the notes to the financial statements. Information important for better understanding of certain positions of the balance sheet, profit and loss account, changes in equity as well as cash flow statement are also included in the notes.

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

Form "Statement of financial position (Balance sheet)" As at 31 December 2021

Sberbank d.d.- u sanaciji		**MB: 01260405**	
Statement of financial position (Balance sheet) as at 31 December 2021 – Non-consolidated		**OIB: 78427478595**	
Position	**Position name**		
	Assets	**31 December 2021**	**31 December 2020**
1.	**Cash, cash balances at central banks and other demand deposits (from 2. to 4.)**	**2,306,839,831**	**1,845,411,469**
2.	Cash on hand	220,516,001	202,085,898
3.	Cash balances at central banks	1,311,609,916	1,225,558,829
4.	Other demand deposits	774,713,914	417,766,742
5.	**Financial assets held for trading (from 6. to 9,)**	**119,513,075**	**98,713,799**
6.	Derivatives	396,228	2,676,487
7.	Equity instruments	-	-
8.	Debt securities	119,116,847	96,037,312
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11. to 13.)**	**-**	**61,228,476**
11.	Equity instruments	-	12,245,695
12.	Debt securities	-	48,982,781
13.	Loans and advances	-	-
14.	**Financial assets designated at fair value through profit or loss (15. + 16.)**	**-**	**-**
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	**Financial assets at fair value through other comprehensive income (from 18. to 20.)**	**693,815,852**	**770,684,878**
18.	Equity instruments	141,000	141,000
19.	Debt securities	693,674,852	770,543,878
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22. + 23.)**	**7,724,418,136**	**8,024,628,433**
22.	Debt securities	10,070,688	18,915,309
23.	Loans and advances	7,714,347,448	8,005,713,124
24.	**Derivatives – Hedge accounting**	**-**	**-**
25.	**Fair value changes of hedged items in portfolio hedge of interest rate risk**	**-**	**-**
26.	**Investments in subsidiaries, joint ventures and associates**	**-**	**-**
27.	**Tangible assets**	**88,174,786**	**106,625,182**
28.	**Intangible assets**	**111,808,848**	**100,132,288**
29.	**Tax assets**	**21,084,305**	**28,742,150**
30.	**Other assets**	**23,983,708**	**21,600,327**
31.	**Non-current assets and disposal groups classified as held for sale**	**-**	**-**
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**11,089,638,541**	**11,057,767,002**

(All amounts are expressed in HRK)

Form "Statement of financial position (Balance sheet)" As at 31 December 2021 (continued)

	Liabilities	31 December 2021	31 December 2020
33.	**Financial liabilities held for trading (from 34. to 38.)**	**20,648**	2,456,202
34.	Derivatives	20,648	2,456,202
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	**Financial liabilities designated at fair value through profit or loss (from 40. to 42.)**	**-**	-
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	**Financial liabilities measured at amortised cost (from 44. to 46.)**	**9,591,892,345**	9,666,094,048
44.	Deposits	9,527,947,270	9,591,056,929
45.	Debt securities issued	-	-
46.	Other financial liabilities	63,945,075	75,037,119
47.	**Derivatives – Hedge accounting**	**-**	-
48.	**Fair value changes of the hedged items in portfolio hedge of interest rate risk**	**-**	-
49.	**Provisions**	**157,975,738**	91,525,399
50.	**Tax liabilities**	**-**	-
51.	**Share capital repayable on demand**	**-**	-
52.	**Other liabilities**	**137,855,408**	121,575,477
53.	**Liabilities included in disposal groups classified as held for sale**		
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**9,887,744,139**	9,881,651,126
	Equity		
55.	**Capital**	**615,623,000**	615,623,000
56.	**Share premium**	**915,045,100**	915,045,100
57.	**Equity instruments issued other than capital**	**-**	-
58.	**Other equity**	**-**	-
59.	**Accumulated other comprehensive income**	**7,109,312**	14,829,688
60.	**Retained earnings**	**(389,692,981)**	(354,032,129)
61.	**Revaluation reserves**	**-**	-
62.	**Other reserves**	**20,311,070**	20,311,070
63.	**(-) Treasury shares**	**-**	-
64.	**Profit or loss attributable to owners of the parent**	**33,498,901**	(35,660,853)
65.	**(-) Interim dividends**	**-**	-
66.	**Minority interest [Non-controlling interests]**	**-**	-
67.	**TOTAL EQUTIY (from 55. to 66.)**	**1,201,894,402**	1,176,115,876
68.	**TOTAL EQUITY AND LIABILITIES (54. + 67.)**	**11,089,638,541**	11,057,767,002

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

Form "Income statement" for the year ended 31 December 2021

Sberbank d,d, - u sanaciji Income statement for the year ended 31 December 2021 - Non-consolidated		**MB: 01260405 OIB: 78427478595**	
Position	**Position name**	**2021**	**2020**
1.	Interest income	332,607,983	334,494,485
2.	(Interest expenses)	(55,056,270)	(62,329,937)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	-	-
5.	Fee and commission income	92,989,115	81,908,034
6.	(Fee and commission expenses)	(24,638,010)	(24,865,010)
7.	Gains or (-) losses on derecogn, of financial assets and liab, not measured at fair value through profit or loss, net	-	442,020
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	15,553,415	1,225,088
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(545,394)	(28,410,995)
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	(882,639)	10,781,591
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
14.	Gains or (-) losses on derecognition of non-financial assets, net	51,491	702,626
15.	Other operating income	2,333,569	3,081,018
16.	(Other operating expenses)	(83,086)	(735,163)
17.	**TOTAL OPERATING INCOME, NET (1. – 2. – 3. + 4. + 5. – 6. + od 7. do 15. – 16.)**	**362,330,172**	**316,293,757**
18.	(Administrative expenses)	(188,556,320)	(168,960,629)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(3,134,184)	(18,372,281)
20.	(Depreciation)	(36,368,980)	(35,552,802)
21.	Modification gains or (-) losses, net	-	-
22.	(Provisions or (-) reversal of provisions, net	(66,442,380)	(30,624,334)
23.	(Impairment or (-) reversal of impairment on financial assets, not measured at fair value through profit or loss)	(24,976,849)	(85,736,585)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	-	(1,225,945)
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) loss of investments in subs,, JV and associates accounted for using the equity method	-	-
28.	Profit or (-) loss from non-current assets and disp, groups class, as held for sale not qualifying as disc, op,	-	-
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. – od 18. do 20. + 21. – od 22. do 25. + od 26. do 28.)**	**42,851,459**	**(24,178,819)**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	(9,352,558)	(11,482,034)
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. – 30.)**	**33,498,901**	**(35,660,853)**
32.	**Profit or (-) loss after tax from discontinued operations (33. – 34.)**	**-**	**-**
33.	Profit or (-) loss before tax from discontinued operations	-	-
34.	(Tax expense or (-) income related to discontinued operations)		
35.	**PROFIT OR (-) LOSS FOR THE YEAR (31. + 32.; 36. + 37.)**	**33,498,901**	**(35,660,853)**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	33,498,901	-

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

Form 'Statement of comprehensive income' for the year ended 31 December 2021

Sberbank d,d, - u sanaciji		**MB: 01260405**	
Statement of comprehensive income for the year ended 31 December 2021 - Non-consolidated		**OIB: 78427478595**	
		2021	**2020**
1.	**Profit or (-) loss for the year**	**33,498,901**	**(35,660,853)**
2.	**Other comprehensive income 3. + 15.)**	**(7,720,376)**	**2,005,528)**
3.	**Items that will not be reclassified to profit or loss (from 4. to 10. + 13. + 14.)**	-	-
4.	Tangible assets	-	-
5.	Intangible assets	-	-
6.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
7.	Non-current assets and disposal groups held for sale	-	-
8.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
9.	Fair value changes of equity instruments measured at fair value through other comprehensive income, net	-	-
10.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
11.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
12.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
13.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
14.	Income tax relating to items that will not be reclassified	-	-
15.	**Items that may be reclassified to profit or loss (from 16. to 23.)**	**(7,720,376)**	**2,005,528**
16.	Hedge od net investments in foreign operation (effective portion)	-	-
17.	Foreign currency translation	-	-
18.	Cash flow hedges [effective portion]	-	-
19.	Hedging instruments [not designated elements]	-	-
20.	Debt instruments at fair value through other comprehensive income	(9,415,093)	2,445,766
21.	Non-current assets and disposal groups held for sale	-	-
22.	Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates	-	-
23.	Income tax relating to items that may be reclassified to profit or (-) loss	1,694,717	(440,238)
24.	**Total comprehensive income for the year (1.+2.; 25. + 26.)**	**25,778,525**	**(33,655,325)**
25.	Attributable minority interest (Non-controlling interest)	-	-
26.	Attributable to owners of the parent	-	-

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

Form 'Statement of changes in shareholders' equity for the year ended 31 December 2021

Sberbankd.d. - u sanaciji 'Statement of changes in shareholders' equity for the year ended 31 December 2021 – Non-consolidated						MB: 01260405 OIB: 78427478595							Minority interests		
	Sources of equity changes	**Capital**	**Share premium**	**Equity instruments issued other than Capital**	**Other equity**	**Accumulated other comprehensive income**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(-) Treasury shares**	**Profit (-) loss attributable to owners of the partner**	**(-) Interim dividends**	**Accumulated other comprehensive income**	**Other income**	**Total**
1.	**Opening balance [before restatement]**	**615,623,000**	**915,045,100**	**-**	**-**	**14,829,688**	**(354,032,129)**	**-**	**20,311,070**	**-**	**(35,660,853)**	**-**	**-**	**-**	**1,176,115,876**
2.	Effects of correction of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Effects of change in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	**Opening balance [current period]**	**615,623,000**	**915,045,100**	**-**	**-**	**14,829,688**	**(354,032,129)**	**-**	**20,311,070**	**-**	**(35,660,853)**	**-**	**-**	**-**	**1,176,115,876**
5.	Issuance of ordinary shares														
6.	Issuance of preference shares														
7.	Issuance of other equity instruments														
8.	Exercise or expiration of other equity instruments issues														
9.	Conversion of debt equity														
10.	Capital reduction														
11.	Dividends														
12.	Sale or cancellation of treasury shares														
13.	Purchase of treasury shares														
14.	Reclassification of financial instruments from equity to liability														
15.	Reclassification of financial instruments from liability to equity														
16.	Transfers among components of equity						(35,660,853)				35,660,853				-
17.	Equity increase or (-) decrease resulting from business combinations														
18.	Share based payments														
19.	Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	Total comprehensive income for the year					(7,720,376)					33,498,901				25,778,525
21.	**Closing Balance [current period]**	**615,623,000**	**915,045,100**	**-**	**-**	**7,109,312**	**(389,692,981)**	**-**	**20,311,070**	**-**	**33,498,901**	**-**	**-**	**-**	**1,201,894,402**

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

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

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

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

Form 'Cash flow statement' for the year ended 31 December 2021

Sberbank d.d. - u sanaciji **MB: 01260405** **OIB: 78427478595**

'Cash flow statement' for the year ended 31 December 2021 - Non-consolidated

		2021	2020
	OPERATING ACTIVITIES FOR INDIRECT METHOD		
9.	Profit/(loss) before tax	42,851,459	(24,178,819)
10.	Impairment losses and provisions	91,419,229	116,360,919
11.	Depreciation	36,368,980	35,552,801
12.	Net unrealized (profit)/loss from financial assets and liabilities through profit and loss	1,364,343	29,872,895
13.	(Gains)/losses from sale of tangible assets	-	-
14.	Other (gains)/losses	882,639	(11,484,215)
	Cash flow from operating activities in operating assets and liabilities		
15.	Deposits with the Croatian National Bank	(5,964,223)	189,970,864
16.	Deposits with banks and loans to financial institutions	432,602,509	82,060,791
17.	Loans to other customers	(152,303,483)	(604,340,131)
18.	FVOCI Securities and other financial instruments	-	-
19.	Securities and other financial instruments held for trading	(20,799,277)	36,340,548
20.	Securities and other financial instruments which are not traded, but are designated at fair value through profit and loss	61,228,476	25,453,700
21.	Securities and other financial instruments which are measured at fair value through profit and loss	-	-
22.	Securities and other financial instruments at amortised cost	8,844,621	(5,670,533)
23.	Other assets	5,274,465	15,989,139
24.	Deposits at financial institutions	(296,121,647)	(408,390,649)
25.	Demand deposits from customers	146,304,504	707,230,764
26.	Savings deposits	(100,914,430)	(44,432,384)
27.	Term deposits	(182,533,945)	(390,610,541)
28.	Derivative liabilities and other liabilities for sale	(2,435,555)	164,064
29.	Other liabilities	2,757,105	(14,057,538)
30.	Interest received from operating activities [indirect method]	-	-
31.	Received dividends [indirect method]	-	-
32.	Paid interest from operating activities [indirect method]	-	-
33.	Income tax paid	(9,352,558)	(11,482,034)
34.	**Net cash flow from operating activities (from 1. to 33.)**	**59,473,212**	**(275,650,359)**
	Investment activities		
35.	Receipt from sale/(payment for buying) of tangible and intangible assets	(29,595,145)	(46,890,318)
36.	Receipt from sale/(payment for buying) of investments in subsidiaries, associates and joint venture	-	-
37.	Receipt from sale/(payment for buying) of securities and other financial instruments held to maturity	69,148,650	21,846,431
38.	Dividend income	-	-
39.	Other receipts/(payments) from investing activities	-	-
40.	**Net cash flow from investing activities (from 35. to 39.)**	**39,553,505**	**(25,043,887)**
	Financial activities		
41.	Net increase /(decrease) of borrowings	371,091,758	151,498,551
42.	Net increase /(decrease) of issued debt securities	-	-
43.	Net increase /(decrease) of subordinated and hybrid instruments	(935,901)	2,949,939
44.	Receipts from transmitted share capital	-	-
45.	(Dividends paid)	-	-
46.	Other receipts/(payments) from operating activities	-	-
47.	**Net cash flow from financial activities (from 41. to 46.)**	**370,155,857**	**154,448,490**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	**469,182,574**	**(146,245,756)**
49.	**Cash and cash equivalents at beginning of the year**	**1,845,411,469**	**1,994,186,010**
50.	Effect of changes in foreign exchange rates on cash and cash equivalents	(7,754,212)	(2,528,785)
51.	**Cash and cash equivalents at the end of the year**	**2,306,839,831**	**1,845,411,469**

Appendix 1 – Forms according to CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK)

Note 'Off balance sheet items' as at 31 December 2021 - Non-consolidated

		31 December 2021	31 December 2020
1.	Guarantees	490,285,381	395,668,068
2.	Letters of credit	14,699,622	12,875,386
3.	Bills of exchange	-	-
4.	Undrawn commitments	419,731,511	497,792,150
5.	Other risk off-balance items	-	-
6.	Futures	-	-
7.	Options	-	-
8.	Swap	-	-
9.	Forwards	161,509,070	2,448,656,347
10.	Other derivatives	-	-

Appendix 2 - Differences between financial statements and CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK '000)

ANNUAL REPORT (AR)		From „Balance sheet" (CNB)		DIFFERENCE	EXPLANATION
Cash and balance with the Croatian National Bank	2,009,014	Cash, cash balances at central banks and other demand deposits	2,306,840	(297,826)	(297,826); CNB – Financial assets at amortised cost
Placements with and loans to banks	890,635		-	890,635	890,635; CNB – Financial assets at amortised cost
Fair value through other comprehensive income financial asset	693,816	Financial assets at fair value through other comprehensive income	693,816	-	-
Debt securities held for trading Derivative financial instruments – positive fair value Non-trading financial assets mandatory at fair value through profit or loss	119,117 396 -	Financial assets held for trading	119,513	-	-
		Non-trading financial assets mandatory at fair value through profit or loss	-		
Loans and advances to customers	7,131,609	Financial assets at amortised cost	7,724,418	(592,809)	297,826; AR – Cash and balance with CNB 890,635; AR – Placements with and loans to banks
Property and equipment	97,345	Tangible assets	88,175	9,170	9,170; CNB – Intangible assets
Intangible assets	102,638	Intangible assets	111,808	(9,170)	(9,170); AR – Tangible assets
Other assets	23,985	Other assets	23,985	-	-
Current tax assets Deferred tax assets	21,084	Tax assets	21,084	-	-
TOTAL ASSETS	**11,089,639**	**TOTAL ASSETS**	**11,089,639**	**-**	**-**
Deposits from banks Deposits from customers Borrowings Subordinated liabilities	317,108 7,897,778 1,109,957 203,104	Financial liabilities measured at amortised cost	9,591,892	(63,945)	(63,945); AR – Other liabilites
Financial liabilities at fair value through profit or loss	21	Financial liabilities held for trading	21	-	-
Provision for liabilities and charges	157,976	Provisions	157,976		
Other liabilities	201,801	Other liabilities	137,856	63,945	63,945; CNB – Financial liabilities measured at amor. cost
TOTAL LIABILITIES	**9,887,745**	**TOTAL LIABILITiES**	**9,887,745**	**-**	**-**
Share capital	615,623	Capital	615,623	-	-
Share premium	915,045	Share premium	915,045	-	-
Fair value reserve	7,109	Accumulated other comprehensive income	7,109	-	-
Accumulated losses	(356,194)	Retainted earnings Profit or loss attributable to owners of the parent	(389,693) 33,499	-	-
Other reserves	20,311	Other resewrves	20,311	-	-
TOTAL EQUITY	**1,201,894**	**TOTAL EQUITY**	**1,201,894**	**-**	**-**
TOTAL LIABILITIES AND EQUITY	**11,089,639**	**TOTAL LIABILITIES AND EQUITY**	**11,089,639**	**-**	**-**

Appendix 2 - Differences between financial statements and CNB requirements

For the period from 1 January 2021 to 31 December 2021

(All amounts are expressed in HRK '000)

ANNUAL REPORT (AR)		Form „Income statement" (CNB)		DIFFERENCE	EXPLANATION
Interest and similar income	328,973	Interest income	332,608	(3,635)	(3,090); AR - Gains or (-) losses on financial assets and liabilities held for trading, net (545); AR - Gains or (-) losses on financial assets mandatorily at fair value through profit or loss, net
Interest expense and similar charges	(55,056)	(Interest expenses)	(55,056)	-	-
Net interest income	273,917		277,552	(3,635)	-
Fee and commission income	92,989	Fee and commission income	92,989	-	-
Fee and commission expenses	(24,638)	(Fee and commission expense)	(24,638)	-	-
Gains less losses on financial instruments at fair value through profit or loss	804		-	804	(2,286); CNB - Gains or (-) losses on financial assets and liabilities held for trading, net 3,090; CNB – interest income
	-	Gains or (-) losses on financial assets mandatorily at fair value through profit or loss, net	(545)	545	545; CNB – Interest income
Gains less losses from trading in foreign currencies	17,839	Gains or (-) losses on financial assets and liabilities held for trading, net	15,553	2,286	2,286 AR Gains less losses from financial assets measured at P&l
Gains less losses from translation of monetary assets and liabilities	(883)	Exchange differences [gain or (-) loss], net	(883)	-	-
	-	Gains or (-) losses on derecognition of non-financial assets, net	51	(51)	(51); AR – Other operating income/(expenses)
Other operating income	2,386	Other operating income	2,334	51	51; CNB - Gains or (-) losses of non-financial assets, net
Other operating (expense)	-	(Other operating expenses)	(84)	84	84; AR – Operating expenses
Net trading and other income	20,146		16,427	3,719	
Operating income	362,414	Total operating income	362,330	84	-
Operating expenses Personnel expenses	(125,896) (102,247)	(Administrative expenses) (Depreciation) (Cash contributions to resolution funds and deposit guarantee schemes)	(188,556) (36,369) (3,134)	(84)	(84); CNB – Other operating expenses
Credit loss allowence	(17,031)	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(24,977)	7,946	7,946; CNB-Provisions or (-)reversals of provisions – provisions for off-balance items
Provisions nad impairment from non-financial asstes	(74,388)	(Provisions or (-) reversal of provisions)	(66,442)	(7,946)	(7,946); AR credit loss allowance
Profit/(loss) before tax	42,852	Profit or (-) loss before tax from continuing operations	42,852	-	-
Income tax	(9,353)	(Tax expense or (-) income related to profit or loss from continuing operations)	(9,353)	-	-
		Profit or (-) loss after tax from continuing operations	33,499	-	-
Profit/(loss) for the year	33,499	Profit or (-) loss for the year	33,499	-	-