

Privredna banka Zagreb d.d.

Annual report

31 December 2021

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

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Introduction

The Management Board of Privredna banka Zagreb d.d. has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises a summary of financial information, Management Board reports for the Bank and the Group, the audited financial statements and the accompanying audit report, supplementary forms required by local regulation and unaudited supplementary statements in EUR and other information. Audited financial statements are presented for the Group and the Bank.

Croatian and English version

This document comprises the Annual Report which also includes separate and consolidated financial statements of Privredna banka Zagreb d.d. for the year ended 31 December 2021 in the English language. This report is also published in the Croatian language for presentation to shareholders at the Annual General Meeting.

Legal status

The separate and consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union (hereinafter: EU) and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in accordance with the provisions of the Companies Act and the Accounting Law, which require the Management Board to report to shareholders of the company at the Annual General Meeting.

Abbreviations

In this Annual Report, Privredna banka Zagreb d.d. is referred to as “the Bank” or “PBZ” or as “Privredna banka Zagreb”, and Privredna banka Zagreb d.d., together with its subsidiaries and associate undertakings are referred to collectively as “the Group” or “the Privredna banka Zagreb Group”.

The central bank, the Croatian National Bank, is referred to as “the CNB”. The European Bank for Reconstruction and Development is referred to as “EBRD”.

In this report, the abbreviations “HRK thousand”, “HRK million”, “USD thousand”, “USD million”, “CHF thousand”, “CHF million”, “EUR thousand”, “EUR million” and “BAM thousand” or “BAM million” represent thousands and millions of Croatian kunas, US dollars, Swiss francs, Euros and Bosnian convertible marks respectively.

Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2021 have been used to translate balances in foreign currency on that date:

CHF 1	=	7.248 HRK
USD 1	=	6.644 HRK
EUR 1	=	7.517 HRK
BAM 1	=	3.843 HRK

Introduction (continued)

Who we are and what we do

We are a leading Croatian financial services group engaged in retail and corporate banking, credit card operations, investment banking, private banking, leasing, investment management services and real estate activities. We operate in the entire area of Croatia, Slovenia and in Bosnia and Herzegovina and employ over four thousand people.

Our mission is to permanently and effectively utilize all of the resources at our disposal to continuously improve all aspects of our business activities, including human resources, technology and business processes.

Our vision is to be a model company and centre of excellence in creating new value, as well as provision of high-quality service in all of our activities for the benefit of our clients, the community, our stakeholders and our employees.

2,013 thousand TOTAL CUSTOMERS 1,868 thousand CURRENT ACCOUNTS	HRK 185.4 billion TOTAL CUSTOMERS' FUNDS* HRK 60.1 billion ASSETS UNDER CUSTODY	668,643 INTERNET BANKING USERS 244 TOTAL BRANCHES
1,073 ATM MACHINES 1,008 DAY AND NIGHT VAULTS	HRK 87.8 billion TOTAL GROSS LOANS HRK 21.4 billion TOTAL GROSS HOUSING LOANS	2,890 thousand TOTAL CARDS ISSUED 36,134 EFT POS

**Comprises customers deposits, assets under management and assets under custody*

Introduction (continued)

Five year summary and financial highlights

(in HRK million)

Group	2021	2020	2019	2018	2017
Income statement and statement of financial position					
Total gross revenue	4,957	4,856	5,720	5,727	5,797
Net interest income	2,542	2,616	2,813	2,813	2,979
Net operating income	4,378	4,297	4,920	4,859	4,919
Net profit for the year	1,403	1,025	1,738	1,720	1,295
Total assets	140,982	128,322	117,917	112,086	104,054
Loans and advances to customers	78,679	75,087	70,565	66,897	65,169
Due to customers	109,980	99,461	89,876	85,938	78,827
Shareholders' equity attributable to equity holders of the Bank	17,726	17,455	16,319	16,036	15,725
Other data (as per management accounts)					
Return on average equity	7.00%	5.40%	9.80%	10.21%	8.10%**
Return on average assets	1.00%	0.76%	1.33%	1.47%	1.20%**
Assets per employee	28.6	25.3	22.6	21.2	20.4**
Cost income ratio	46.00%	45.90%	42.20%	44.20%	42.70%**

**Presented information does not include Veneto banka dd (subsidiary acquired and merged in 2018)

(in HRK million)

Bank	2021	2020	2019	2018	2017
Income statement and statement of financial position					
Total gross revenue	3,473	3,391	4,501	3,885	4,315
Net interest income	1,965	2,048	2,189	2,207	2,374
Net operating income	3,103	3,043	3,998	3,321	3,815
Net profit for the year	1,115	817	1,880	1,380	1,443
Total assets	104,629	95,924	87,440	82,961	75,497
Loans and advances to customers	53,835	51,170	47,188	45,611	44,562
Due to customers	81,112	73,155	65,890	63,042	57,173
Shareholders' equity attributable to equity holders of the Bank	15,612	15,551	14,661	14,151	13,755
Other data (as per management accounts)					
Return on average equity	7.00%	5.40%	13.40%	10.10%	11.10%
Return on average assets	1.07%	0.85%	2.11%	1.65%	1.80%
Assets per employee	31.0	27.2	24.5	22.8	21.8
Cost income ratio	41.60%	42.30%	32.90%	41.50%	35.30%

Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb dd., I am honoured to present you the business results of the Bank and the Group for the year 2021.

Despite the still uncertain pandemic conditions, the last year was marked by a strong economic recovery and the return of the inflationary pressures. Due to bottlenecks and disruptions in supply chains, strong growth in the prices of oil, natural gas, electricity and a range of raw materials and intermediate products pushed inflation to unprecedented levels in recent decades.

Financial markets during 2021 continued to be characterized by low or negative interest rates and accommodative monetary policy, with the aim of maintaining financial stability and favourable financing conditions for all sectors of the economy. Economic developments among major Croatian foreign trade partners during 2021 were marked by a relatively strong economic recovery.

Despite the challenges of the third and fourth pandemic wave, the Croatian economy witnessed a strong and rapid recovery in 2021. Economic growth was widespread, whereby it is particularly important to single out the continued strong double-digit growth of goods exports, and the exceptionally successful tourist season, which exceeded the record comparable quarter of 2019 in terms of revenues generated from foreign tourists during the third quarter. Owing to positive labour market trends, including employment and wage growth, personal consumption posted a strong recovery, while investment growth was supported by EU funds. Based on the available data, we estimate that growth in 2021 amounted to at least 9.5 per cent, by which the domestic economy fully compensated for the 8.1 per cent decline recorded in 2020, and also recorded one of the stronger growth rates within the European Union.

The achieved strong and rapid recovery as well as progress in fiscal indicators as early as in 2021, the expected accession to the euro area in early 2023, as well as positive expectations for economic growth and further improvements in fiscal indicators in the upcoming period, in November led to an improvement in the credit rating by Fitch to the BBB level, which is also historically the highest rating of the country.

In this challenging environment the PBZ Group managed to stabilize its business and to control risks arising from its transactions far better than our peers. We coped more than adequate, thus fully protected our capital base, deposits and liquidity. This good result was achieved by application of our long-term strategy built around conservatism in identification and measurement of all risks arising from our daily operations and full dedication to client-oriented approach in all stages of our activities. Moreover, the PBZ Group maintains a comfortable structural liquidity position, given its stable customer deposit base, appropriate sources of long-term funding and its shareholders' equity. Mix of all those elements enabled us to be truly proud of the strength and resiliency that have been proven in such circumstances. We succeeded in both retaining the value of our Group and giving contribution to the society in which we operate.

We have timely recognized and properly managed the increasing level of risk caused by the COVID-19 outbreak. Consequently, we have immediately reacted and aligned recovery processes and strategies to proactively manage clients impacted by the pandemic. All these measures were fully aligned with European Banking Authority Guidelines and circular letters of Croatian National Bank (in Bosnia and Herzegovina and Slovenia aligned to their local regulation), ensuring that the treatment of non-legislative moratoria is consistent with the moratoria applied through the legislation.

The total outstanding exposure of loans subject to the moratorium at the level of the PBZ Group as of 31 December 2021 amounts to HRK 8,943 million, of which HRK 8,917 million (99.7 per cent) relates to expired moratoria. The Bank and members of the PBZ Group closely monitor these positions in order to timely and proactively identify increased credit risk in the portfolio and recognize related costs through the income statement. In addition to the moratorium, the Bank also offered special liquidity lines that are partially covered by guarantees, where a total of HRK 683 million was approved.

From the fourth quarter of 2020, the Bank began to regularly conduct a comprehensive individual analysis of the client portfolio with expired COVID moratoriums and analysis of clients belonging to the most vulnerable industries (tourism, transport and storage and shopping centers).

As a result, our proactive credit risk management and execution of well-defined and timely-adjusted collection strategies have managed to bring the non-performing loans share to the lowest level since it began to be measured.

During 2021 we placed special attention to shaping ourselves into becoming prominent partner to the local economy. We are constantly focused on enhancement of our services and development of new and innovative products. Hence, we increased our placements in all business segments where we operate. I am specially satisfied that despite the previously mentioned challenging market conditions we managed to preserve the placements in small and medium enterprises as well as in large corporate segment.

Report from the President of the Supervisory Board (continued)

Total gross revenue for the PBZ Group amounted to HRK 4.95 billion. Consolidated net operating income equalled HRK 4.4 billion, whereas net profit recorded HRK 1,403 million (HRK 1,338 million attributable to the equity holders of the Bank). Our cost/income ratio, an efficiency key measure, equals 46 percent, while the return on average equity reached 7 percent. These are all exceptional figures consistently representing strong performance throughout the years.

In 2021 the PBZ Group further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with a strong customer base. Both revenues and profitability in the PBZ Group are well balanced in all market segment thus successfully mitigating any burdens that concentration risk might impose.

Apart from this, I am proud to report that the PBZ Group is very committed to the role of being socially responsible company and an important member of business community in the country.

Consequently, both the Bank and the Group have a proactive role in encouraging corporate social responsibility initiatives and projects, with constant dedication to supporting the local community. We are the leading donor in the country and unrivalled among peers regarding donations to healthcare institutions in combating the COVID-19 pandemic as well as repairing the consequences of the devastating earthquake that hit Croatia and we have donated HRK 12.8 million for these purposes. Among our corporate social responsibility projects, I would like to single out our Visa Card with a Heart project, unique in the country, which supports our Doing Good Everyday initiative. For over a decade, this initiative has served to continuously support national, long-term projects for the well-being of children and young people, while also responding to our society's current needs. Within this project our Group has so far made 59 donations, including children's hospitals and pediatric wards and social care homes across Croatia.

Looking ahead, the present economic climate suggests that the respective environment in 2022 will nevertheless remain challenging. Therefore, a continued focus by management on overseeing asset quality, maintaining optimal product mix as well as an active monitoring of operating costs will be crucial. We have the ability to overcome the near-term challenges. Furthermore, we are well positioned to earn benefits from the present and future trends in growing integration of the Croatian market into the global financial markets. Given our business model, these trends present a significant growth opportunity for us.

Following the inclusion of the Croatian Kuna in the European Exchange Rate Mechanism ERM II in July 2020 as a phase preceding the announcement of the introduction of the Euro currency in 2023, the Bank begun preparatory activities to establish an initiative to replace the Croatian Kuna with the Euro as an official national currency at the level of the Bank and its Croatian subsidiaries. This major national change shall have an impact on the wide scope of the projects and require the intensive involvement of almost the entire Bank and its Croatian subsidiaries during the period in which the Bank shall have to prepare for the introduction of the Euro as its official national currency. We consider the project as the most relevant for the next years.

On behalf of the Supervisory Board, I would like to express my gratitude and appreciation to all the employees of the Group for their commitment and valued contribution. I would also like to thank the Management Board for its strong leadership and outstanding performance. Finally, I want to express my great appreciation of the work of my colleagues on the Supervisory Board, as well as of the Audit Committee members, for their wise counsel and contribution.

Ignacio Jaquotot

President of the Supervisory Board



22 February 2022

Management Board report of the Status of the Bank

Distinguished shareholders,

I am honoured to present you the Annual Report and Financial Statements of Privredna banka Zagreb dd and the PBZ Group for the year ended on 31 December 2021.

Following the strong economic contraction caused by the coronavirus pandemic in 2020, the year of 2021 was marked by the economic recovery. It is expected that the growth of global economic output might reach 5.9 per cent while the estimated growth rate of gross domestic product in the euro zone is expected at 5 per cent. Therefore, despite the still uncertain pandemic conditions, the last year was marked by a strong economic recovery and the emergence of the inflationary pressures. Due to bottlenecks and disruptions in supply chains, strong growth in the prices of oil, natural gas, electricity and a range of raw materials and intermediate products pushed inflation to unprecedented levels in recent decades.

During 2021 financial markets continued to be characterized by low or negative interest rates and accommodative monetary policy, with the aim of maintaining financial stability and favourable financing conditions for all sectors of the economy. However, intensifying inflationary pressures prompted central banks to change their approach during December.

Economic developments among major Croatian foreign trade partners during 2021 were marked by a relatively strong economic recovery.

Despite these challenging circumstances, we are nurturing cautious optimism that our and surrounding economies will recover in the forthcoming period, so we have continued tailoring our business strategy accordingly. As we have consistently been proving our operations to be resilient and sound, we remained strong and agile and readily faced all challenges brought by this troubled economic and social environment. Therefore, Privredna banka Zagreb dd and its subsidiaries, supported by our strategic partner Intesa Sanpaolo, managed to outperform our peers in majority of the most relevant business aspects. We continued executing our adaptable business strategy built around customer relations and well-diversified source of income, thus keeping a steady course and reflecting the ability to stabilize our earnings power. All our business segments managed to cope extremely well with the surrounding conditions. Supplementary to this, we have been investing significant effort into shaping ourselves into well-capacitated, experienced and agile entity able to conduct exceptional management of non-performing loans. Our proactive credit risk management and execution of well-defined and timely-adjusted collection strategies, despite continuous challenges and periodical shocks, resulted with significant decrease of non-performing loans portfolio compared to the previous year, reaching the historically all-time-low level (since measured) of non-performing loans ratio (4.3 percent on the PBZ Group level).

Outlook

Despite the challenges of the third and fourth pandemic wave, the Croatian economy witnessed a strong and rapid recovery in 2021. Economic growth was widespread, whereby it is particularly important to single out the continued strong double-digit growth of goods exports, and the exceptionally successful tourist season, which exceeded the record comparable quarter of 2019 in terms of revenues generated from foreign tourists during the third quarter. Owing to positive labour market trends, including employment and wage growth, personal consumption posted a strong recovery, while investment growth was supported by European Union funds. Based on the available data, we estimate that growth in 2021 amounted to at least 9.5 per cent, by which the domestic economy fully compensated for the 8.1 per cent decline recorded in 2020, and also recorded one of the stronger growth rates within the European Union.

The achieved strong and rapid recovery as well as progress in fiscal indicators as early as in 2021, the expected accession to the euro area in early 2023, as well as positive expectations for economic growth and further improvements in fiscal indicators in the upcoming period, in November led to an improvement in the credit rating by Fitch to the BBB level, which is also historically the highest rating of the country, which thus further rounded off the positive economic story of the year 2021.

Management Board report of the Status of the Bank (continued)

Consolidated financial results

The consolidated net profits for 2021 amounted to HRK 1,403 million, proving our continuation in achieving remarkable results, despite operating amid the burdensome and murky economic environment. This worthy result came from carefully planned and precisely executed business strategy that encompasses execution of conservative and systematic approach towards all risks arising from the business transactions, especially credit risk as well as already proven dedication to client orientation and diversification of income sources.

Despite being challenged by the downhearted business conditions following adverse economic shock caused by the COVID-19 pandemic that eventually directly and indirectly does reflect to the banking industry, it seems that we managed to control risks arising from our operations in a better way than our peers. This achievement is stemming from our commitment to manage non-performing part of our portfolio in flexible, prudent and swift manner allowing us to sell noticeable parts of non-performing portfolio at usually higher prices than our peers, increase collection and improve restructuring process. Through the year, the PBZ Group constantly monitored and adjusted its risk profile in light of environmental changes, in particular of COVID-19 pandemic effects and our expectations for the future period, achieving notable results in managing of key risk indicators such as non-performing loans share, cost of risk and risk weighted assets. This resulted with significant decrease of the PBZ Group non-performing loans portfolio compared to the previous year and decrease of non-performing loans ratio below 5 percent, which is historically all-time-low level (since measured). Additionally, with proactive management of portfolio risks we managed to substantially control cost of risk, reaching 0.22 per cent of average loan portfolio stock at the end of 2021.

Also, the Group invested in further strengthening of risk management capacities and compliance with everchanging risk management regulations while participating in activities related to initiated procedure for establishment of a close cooperation between the European Central Bank and the Croatian National Bank in the exercise of supervisory tasks over credit institutions.

The Group's capital management policies and practices, among other tools, are based on an internal capital adequacy assessment process (ICAAP). In this process, the PBZ Group regularly identifies its risks and determines the amount of free available capital in both base and stress scenarios. I am pleased to report that the PBZ Group is one of the leading, well-capitalized banking groups in the country, with more than sufficient capital shield compared to internal capital requirement in both base and stress scenario.

Our Capital Adequacy Ratio sits comfortably above 20 percent, which is significantly higher than required by the regulation and determined within Supervisory Review and Evaluation Process. We believe that we are exceptionally well prepared for all possible risks that might arise in the forthcoming period.

Based on the methodology used for management reporting, the Group's return on average equity in 2021 reached 7 per cent, while return on average assets stood at 1 per cent. Assets per employee equalled HRK 28.6 million, whereas the cost to income ratio, according to the consolidated financial statements, was maintained at 46 per cent.

As a reflection of these events, the positive effect of our in-built-long-lasting client orientation, despite the existence of the unstable economic surroundings, had stabilizing influence on net interest income and net fee and commission income. Equally important, undeterred by risky and excruciating macroeconomic habitat, our previously taken strategic decisions enabled us to additionally strengthen our capital base and secure stable liquidity sources thus reducing our costs of funding and allowing us to adopt customer driven practices that resulted in an improvement of our products and services.

Aligned with the above and in more details, our net interest income moderately decreased compared to 2020, being more negatively affected by a decrease in interest income than what it was compensated by a decrease in interest expense. These effects were caused by high liquidity on the market and by overall negative macroeconomic conditions caused by the COVID-19 pandemic outbreak that has given rise to defensive nature of the economic community towards consumption and investments. On the other hand, net fee and commission income recorded an increase, that under the above-mentioned circumstances, can easily be characterized as well-preserved, continuously proving our successful transformation into becoming a more service-oriented enterprise. Similarly, a significant decrease in costs of provisions compared to the previous year is direct evidence of the quality of our non-performing loans management and strategy.

Management Board report of the Status of the Bank (continued)

Consolidated financial results (continued)

The balance sheet of the PBZ Group increased notably by 9.9 per cent, amounting to HRK 141 billion. The most significant portion of our assets are loans and advances to customers which we managed to increase by 4.8 per cent compared to 2020 to the level of HRK 78.7 billion, although faced with the negative shocks in the economic environment, notable sales of non-performing loans portfolio and prevailing lack of demand for loans caused by the erratic economic situation that affected our clients, both corporate and retail. We continue practicing a well-diversified loan portfolio policy, having remotely higher volume of placements to retail customers on one side than placements to public and corporate clients on the other. Given our firm commitment to apply a prudent approach in risk identification and measurement, non-performing loans fell below 5 per cent threshold, additionally indicating the quality of our non-performing loans management.

From the liabilities perspective, customer deposits mainly fund our balance sheet, where the retail segment plays the most significant role. In 2021, once again we experienced an upsurge in customer deposits by 10.6 per cent, reaching the level of HRK 110 billion, caused by both high liquidity observable on the market and our reputation of being one of the most stable and client oriented financial group on the market. Capital adequacy ratio remained stable and it is by far exceeding the prescribed threshold.

Unconsolidated financial results of the Bank

The Bank's net result in 2021 was HRK 1,115 million, representing a significant increase compared to the preceding year. Considering all the circumstances, this favourable result is stemming from careful planning and enduring execution of our business strategy and our ability to swiftly adopt to changes in our environment. Defying the fact that there were significant risks present in the economy paired with the general uncertainty that persists, net interest income slightly declined. In spite of the prevailing presence of the excessive liquidity pushing downwards reference market rates and overall sluggishness in demand for loans, it is noticeable that interest income remained well-preserved declining by only 4.6 per cent compared to 2020, thus reaching the level of HRK 2.05 billion. Equally important, net fee and commission income rose by 6.6 per cent to the level of HRK 744 million. On the other hand, clients continued placing their unfaltering trust in the Bank as a reliable partner and allocating funds to both a-vista and term deposits. Although, in most cases, the Bank offers lower interest rates compared to the competition, our market share in terms of total assets remains stable, and according to the latest data, stands at 20.8 per cent, additionally corroborating the high quality of the business relationships between clients and the Bank. Therefore, we were able to partially compensate for the negative trend experienced in relation to interest income. However, as we are widely recognized as steady and low-risk partner to all our clients, this further affirmed us to continue practicing our dedication to fulfilment of overall client requirements. This strategy was accompanied by efficient and omnipresent cost management enterprise carried within all organizational units enabling us to successfully control the expense side of our business. Hence, we were able to maintain our cost to income ratio at 41.6 per cent (based on the methodology used for management reporting).

The overall Bank's balance sheet eminently increased by 9.1 per cent, reaching a level of HRK 104.6 billion. Although the market shows fatigue in demand for loans, loans and advances to customers increased by notable 5.2 per cent, amounting to HRK 53.8 billion. Current accounts and deposits from customers increased by convincing 10.9 per cent, reaching the level of HRK 81.1 billion. Considering the total structure of the balance sheet, the relative portion of customer deposits amounts to 77.5 per cent. The total loan to deposit ratio of the Bank equals 66 per cent emphasizing the stability and conservative nature of our ventures.

COVID-19 pandemic

The PBZ Group responded first on the market with activities regarding COVID-19 pandemic and since then is reacting timely and proactively. Safety and security of our customers and employees as well as business continuity were absolutely priorities in our approach.

Crisis Committee regularly oversees the PBZ Group's situation. Activities and measures received full support and praise by the employee's union. The Bank is functioning successfully with less than 20 per cent of employees working from Head Offices.

All employees and working positions are equipped with all available protective equipment (face masks, face shields, gloves, disinfectants and plexiglass protection on tellers).

Immediately upon COVID-19 escalation, and as the pandemic has been progressing, the PBZ Group has introduced and accordingly revised related measures (e.g. inducing payment moratoria and additional liquidity lines) trying to support local economy stability in the situation of exceptional and temporary emergency. All these measures were fully aligned with European Banking Authority Guidelines and circular letters of Croatian National Bank (in Bosnia and Herzegovina and Slovenia aligned to their local regulation), ensuring that the treatment of non-legislative moratoria is consistent with the moratoria applied through the legislation.

Management Board report of the Status of the Bank (continued)

COVID-19 pandemic (continued)

At the same time, the Group has taken all the necessary steps to maintain a sound credit risk management and coverage of incurred credit risk by aligning practices with all the regulatory and accounting standards. This has been done by timely approach to identification and measurement of credit risk in our portfolio and adequately reacting on the challenges by enhancing strategies, policies, processes and mechanisms that ensure that risk is adequately assessed, classified and measured on the balance sheet. All the subsidiaries aligned their practices with the Bank to the extent applicable to them and considering proportionality principle.

All these implemented practices are still valid and will remain in place as long as there are present significant uncertainties in macroeconomic environment, after which will be aligned accordingly to adapt to the changing environment.

The total outstanding exposure of loans subject to the moratorium at the level of the PBZ Group as of 31 December 2021 amounts to HRK 8,943 million, of which HRK 8,917 million (99.7 per cent) relates to expired moratoria. The Bank and members of the PBZ Group closely monitor these positions in order to timely and proactively identify increased credit risk in the portfolio and recognize related costs through the income statement. In addition to the moratorium, the Bank also offered special liquidity lines that are partially covered by guarantees, where a total of HRK 683 million was approved

From the fourth quarter of 2020, the Bank began to regularly conduct a comprehensive individual analysis of the client portfolio with expired COVID-19 moratoriums and analysis of clients belonging to the most vulnerable industries (tourism, transport and storage and shopping centers). Based on the conducted analyses, until 31 December 2021 a total of HRK 1,245 million of exposures were reclassified to stage 2 and HRK 298 million in stage 3

Considering still uncertain development of the pandemic primarily related to new concerning coronavirus variations, but also other macroeconomic risks (such as inflation, disruptions in supply chains etc.), the Bank shall continue to monitor and analyze the dynamics of quality and development of the credit portfolio, and, if necessary, will take further actions and adjustments in approval and collection, with the aim of timely assessment of real risks in the portfolio, proactive monitoring and identification of early warning signals for possible portfolio deterioration, and reduction of potential credit losses.

Business segments

During 2021 the Bank additionally consolidated its role as a leader in new technologies, continuously developing new and innovative products and services, both for the citizens and corporate clients. Moreover, considerable effort was put into its transformation to become an entity entirely equipped for digital services. The content and availability of digital services on mobile and online platforms were thoroughly redesigned and significantly upgraded. This endeavour was carefully aligned with the adoption of new distribution model in branch offices promoting the execution of cash and simpler transactions in digital channels, simultaneously introducing changes in the branch office network in order to carry out more complex tasks quicker and more easily and to improve personal relationships with clients. This significantly simplifies the everyday banking experience for the clients and enables a wider range of products and services.

In the Bank more than 96 per cent of transactions are carried out electronically. The new digital banking platform is a multi-channel online and mobile banking concept with numerous innovative functionalities and possibility to personalize the application in accordance with the clients' needs and wishes. Moreover, we are the first commercial bank in Croatia to provide its clients with Apple Pay services and Google Pay services in recent period. By doing so we shall ease the clients' daily banking experience and offer them a wider range of the products thus fully satisfying all their requirements.

During 2021 in order to harmonize with the organizational structure of the parent bank, the Bank carried out an internal reorganization of retail and small and medium enterprises group of businesses. With these changes, the management of the small business segment (micro enterprises and craftsmen) was organized within the Retail Banking division, and the SME segment (small and medium enterprises) within the Large Corporate and Investment Banking division. Organizationally, this required the abolition of the Small and Medium Enterprises division and an appropriate redistribution of activities.

Despite still sluggish recovery of demand for loans on the market, the Bank managed to increase our portfolio in Retail business segment, both on the loans and deposits side, where, among other initiatives, we ventured ourselves into becoming an important provider in the affluent and premium sub-segment of the market as well. Privredna banka Zagreb d.d. once again finished the year as the leader in the volumes of all housing loans, including subsidised loans placed, with an expanded offer of products in loans and investment area, demonstrating the confidence of our clients in the stability of the Bank. Wellbeing of our clients and our employees remained a top priority, with branches being modified according to the health and safety recommendations, and digital channels offering improved functionalities, enabling our clients to continually manage their finances utilizing the benefits of modern technologies.

Management Board report of the Status of the Bank (continued)

Business segments (continued)

Facing uneasy market conditions which, Small Enterprises business segment managed to increase size of its portfolio, both loans (for 5 per cent) and deposits (for 20 per cent) compared to year before. Corporate business segment was facing harsh market conditions arising from the fact that large clients are offered more financing possibilities than ever, outside banking industry and/or local markets. However, our dedication to successfully serve this portion of the market encouraged us to seek new opportunities both in the Republic of Croatia and at the level of the role of the Bank in the regional hub, resulting with the Corporate & SME loan portfolio growth by 6.9 per cent when compared to the previous year

We are especially recognized in Croatian market for our excellence in providing technologically advanced and reliable transaction banking, as the leading equity and debt issue agent and book-runner, as market leader in arranging syndicated loans in Croatia and as top ranked custodian. We pay special attention to the green and circular economy, trade finance business and factoring.

Extraordinary business events

Following the inclusion of the Croatian Kuna in the European Exchange Rate Mechanism ERM II in July 2020 as a phase preceding the announcement of the introduction of the Euro currency in 2023, the Bank begun preparatory activities to establish an initiative to replace the Croatian Kuna with the Euro as an official national currency at the level of the Bank and its Croatian subsidiaries.

The process of introducing Euro currency is managed by the Government of the Republic of Croatia and the Croatian National Bank (CNB). On December 23 2020 the Croatian Government adopted the National Plan for the Exchange of the Croatian Kuna with the Euro. According to the National Plan, the first possible date for replacing the Croatian Kuna with the Euro is January 1 2023. National action plan for Euro changeover was adopted in June 2021 by the National Council for the Introduction of the Euro.

This major national change shall have an impact on the wide scope of the projects and require the intensive involvement of almost the entire Bank and its Croatian subsidiaries during the period in which the Bank shall have to prepare for the introduction of the Euro as its official national currency.

The complexity of the project is reflected in the participation of various internal and external stakeholders, such as the Government, Croatian National Bank, Croatian Financial Services Supervisory Agency, Croatian Banking Association, the parent bank and others, but also in the time limit of about 2 years.

The Management Board considers the project as the most relevant for the next years.

In April 2021 the General Assembly of the Bank reached the decision on delisting the shares of the Bank from the Zagreb Stock Exchange. In following months, based on that decision, the Bank purchased 263,632 of own shares from minority shareholders for the total amount of HRK 219.5 million. The shares were delisted from the market as of 7 May 2021.

Corporate social responsibility

Both the Bank and the Group have a proactive role in encouraging corporate social responsibility initiatives and projects, with constant dedication to supporting the local community. We are the leading donor in the country and unrivalled among peers regarding donations to healthcare institutions in combating the COVID-19 pandemic as well as repairing the consequences of the devastating earthquake that hit Croatia and we have donated HRK 12.8 million for these purposes. Among our corporate social responsibility projects, I would like to single out our Visa Card with a Heart project, unique in the country, which supports our Doing Good Everyday initiative. For over a decade, this initiative has served to continuously support national, long-term projects for the well-being of children and young people, while also responding to our society's current needs. Within this project our Group has so far made 59 donations, including children's hospitals and pediatric wards and social care homes across Croatia.

Our PBZ Financial Literacy Project, recognizable in the community and Croatian schools, has been initiated as part of the Intesa Sanpaolo project "The Art of Saving". Last year we digitalized the workshop on savings and expanded the project scope with digital security webinar for schools. These new video materials were published on the PBZ YouTube channel and on the World Savings Day, where it was viewed by 439 students from 23 schools from all over Croatia.

Sustainability impact of the Group is visible from our environmental initiatives as well. In year dedicated to raising ecological awareness and call for action among our employees, we have set up the exhibition The Art of Recycling in our business premises, supported the Earth Hour initiative and planted our first of many PBZ Forest in a large ecological initiative of afforestation of the 10.000 m² of burned area in the municipality of Promina.

PRIVREDNA BANKA ZAGREB d.d.

Management Board report of the Status of the Bank (continued)

Corporate social responsibility (continued)

Finally, I am proud of seven new initiatives launched last year dedicated to mental health, work-life balance and inclusion and diversity. These initiatives not only raise awareness of our employees on important topics, such as Gender Diversity Quiz in European Diversity Month, which was attended by more than thousand employees, but also provide very specific tool to support our colleagues in appropriate way and manner.

In 2021 the Bank received numerous awards, the most respected domestic acknowledgments Zlatna kuna of the Croatian Chamber of Commerce and international awards as the best bank in Croatia such as the Global Finance Award and Euromoney Awards for Excellence for the second year in a row.

Briefly on the Bank's subsidiaries

In 2021, the PBZ Group members coped well with the overall economic conditions that resulted in positive financial outcomes. Therefore, PBZ Card achieved a net profit of HRK 119.5 million, PBZ Leasing HRK 19.3 million, PBZ Stambena štedionica HRK 10.4 million, whereas PBZ Croatia osiguranje, our jointly owned pension fund management company, earned a profit of HRK 21 million.

Intesa Sanpaolo Banka dd Bosna i Hercegovina, our subsidiary established in Bosnia and Herzegovina, earned HRK 123.4 million attributable to the PBZ Group. Intesa Sanpaolo Bank, our subsidiary in Slovenia, earned HRK 67.9 million attributable to the PBZ Group. Our foreign subsidiaries' strategic objectives are jointly planned on the PBZ Group level - progressing with multi-year plan of investments for the infrastructural and technological modernization, organizational changes in terms of increase of the competitiveness and faster reaction to market changes and continuous assessment of risk profile. Implementation of these objectives are already bearing fruits in current business result but also represent a solid foundation for the future events.

Additionally, in order to achieve further operational harmonization on the level of all three Banks in the Group leading to a unique operational model, increase of effectiveness and efficiency of business operations and savings in general, a new multi-year initiative was launched in 2018 that is already bearing the fruits.

With an aim of further optimization of the current PBZ Group structure, due to simplification in the governance process and IT infrastructure, during 2022 we intend to merge PBZ Stambena štedionica into the Bank. This business combination shall have no impact on the overall scope of the services and the quality provided by the PBZ Group.

Conclusion

The PBZ Group is well-fitted not only to face up to challenges, but also to seize opportunities. We have a strong capital base, liquidity and funding positions, preparing us for potential market uncertainties and for tighter regulation. We are continuously transiting to a better balanced, more diversified and lower-risk business model.

I would like to take this opportunity to express gratefulness to all my colleagues and all employees of the PBZ Group for their dedication and true professionalism that enabled us safely to sail through these restless times. Furthermore, I would like to thank all our dear clients and business partners for putting their trust in our hands. Also, I would like to express my most sincere gratitude to all the members of the Supervisory Board and Colleagues working with the Parent bank for their support, cooperation and encouragement in conducting our business affairs.

Dinko Lucić,

President of the Management Board

22 February 2022

Management Board report of the Status of the Group

Financial Highlights of the Group

The year behind us has been full of challenges with a number of constraints caused by the coronavirus pandemic, the uncertainty of global events, and on the other hand the revival of the economy while adapting to the new situation. In the conditions of rapid changes, the financial system enabled the continuity and availability of its products and services to all customer structures through various distribution channels in order to simultaneously preserve the health of customers and its own employees.

In 2021, the PBZ Group showed its readiness to withstand the challenges in the markets of the countries in which its members operate. This is especially true of leadership in new technologies, innovation and accessibility of its products to citizens, small and medium-sized enterprises and large and institutional businesses.

Strong economic growth in Croatia driven by growing foreign demand and domestic consumption and a good tourist season, as well as growing economic activity in Slovenia and Bosnia and Herzegovina, contributed to the Group's consolidated net profit in 2021 of HRK 1,609 million, an increase of a respectable 57.0 percent over the previous year. By adjusting the way of life to the conditions of the pandemic, lifting the moratorium on loan repayments introduced in 2020 and launching economic activities, the risks of credit losses have been reduced. The introduction of more flexible epidemic measures triggered spending, which resulted in an increase in fee income for card products and payment transactions.

In 2021, the trend of decreasing the Group's net interest income continued in the amount of HRK 2,543 million, which is a decrease of 2.8 percent compared to the previous year. This is a consequence of the lack of interest income due to the moratorium on loans, lower interest rates on placements and high availability of funds on the market. In contrast, net income from fees and commissions amounted to HRK 1,482 million at the end of the year and increased by 7.2 percent compared to 2020. Consumer habits have changed in the corona crisis towards the increasing use of modern electronic and digital services such as online shopping, contactless payments and the like. Also, the tourist season in 2021 was significantly better than the previous one, and the new restrictive measures enabled activities that previously had a ban or restriction of work to adapt to new business conditions. With the support of card companies and the financial sector, economic activity increased, which was reflected in the growth of revenues from fees for payment transactions of the PBZ Group of 8.9 percent and the increase in revenues from fees for card operations by 13.2 percent compared to the previous year.

The reduction in the cost of provisions by 42.6 percent compared to the previous year is direct evidence of the ability to compensate for stressful situations on the loan portfolio and the success of the set risk management strategy. The risk management system has shown its ability to adapt to extremely unfavorable economic trends and stressful situations. This success stems from PBZ Group's commitment to managing its non-performing loans portfolio in a flexible, prudent and fast manner. The share of non-performing loans to customers in total customer placements decreased from 5.8 percent in the previous year to 4.5 percent in 2021.

PBZ Group's operating expenses decreased by 11.7 percent due to lower deposit insurance costs compared to the previous year, which also contributed to the increase in profit.

PBZ Group's policies and procedures in capital management are based, inter alia, on the Internal Capital Adequacy Assessment (ICAAP) process. In this process, the Group regularly identifies risks and determines the level of available capital in stress scenarios. The PBZ Group is one of the leading and well-capitalized banking groups in the country, with more than enough additional available capital in relation to the required level of internal capital in stress scenarios.

Based on the methodology used to report to management, the return on average capital of the Group in 2021 was 7.0 percent with an increase of 29.6 percent compared to the previous year, while the return on average assets was 1.0 percent or 31.6 percent more than in 2020. Assets per employee amounted to HRK 28.6 million, an increase of 13.0 percent compared to the previous year, while the cost / income ratio according to the consolidated financial statements is 46.0 percent as a result of strategic management at all levels of the Group's operations.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

The balance sheet of the PBZ Group increased by 9.9 percent in 2021 and amounted to HRK 141 billion at the end of the year. The most significant part of assets consists of loans and advances to customers, which recorded an increase of 4.8 percent with a year-end balance of HRK 78.7 billion. Placements to citizens before booking increased by 2.2 percent. Business with corporate clients before provisions grew by 4.9 percent despite the prevailing conditions of uncertainty about spending and investments, and placements to the public sector and others before provisions increased by 6.3 percent. We continue to implement the credit portfolio diversification policy, with the highest growth in 2021 in the energy, manufacturing and retail sectors.

Client deposits are the main source of financing, where the retail segment has the most significant share. In 2021, customer deposits increased by 10.6 percent to HRK 110.0 billion, with retail deposits growing by 10.8 percent, corporate deposits growing by 13.4 percent and public deposits sector and others an increase of 1.8 percent over the previous year.

It is equally important to emphasize that despite the still unstable environment, the Group, thanks to previous strategic decisions, managed to further strengthen the capital base and provide stable sources of liquidity, which allows maintaining customer-oriented practices.

Below we provide an overview of business results of the Bank's subsidiaries and associate. Presented business results are on a stand-alone basis, before intercompany and consolidation adjustments.

PBZ Card

The financial results of PBZ Card reflect the stability in business results in 2021.

The total net operating income of the Company in 2021 amounts to HRK 310.4 million, which is 6.4 percent higher than the result achieved in 2020. Net income from fees and commissions amounted to HRK 421.8 million, or 3.6 percent higher than last year. In the structure of net operating income, interest income amounts to HRK 11.6 million, which is 22 percent higher than in the previous year.

The Company's profit before tax amounts to HRK 147.8 million, and after tax to HRK 121.1 million.

Total operating expenses for 2021 amount to HRK 345.5 million, while total assets as at 31 December 2021 amounted to HRK 2,725 million. Total equity of the Company amounted to HRK 919.8 million.

Intesa Sanpaolo bank Bosna and Hercegovina

After 2020 results were significantly affected by covid-19 pandemic, 2021 has been marked by growth of business activities and revenues, especially in commissions and trading as direct reflection from reviving the economy, positive effects from tourist season and economic recovery of the country. Growth of revenues coupled with significantly lower provisions in 2021 led to net profit of HRK 123.4 million or an increase by 54.9 million HRK (+80.2 percent) compared to the previous year.

Net Interest Margin is higher by 1.7 percent compared to last year due mainly due to achieved savings in interest expenses (mainly driven by active pricing management of deposits). It fully offset lower realisation of interest income which were impacted by the decrease of interest rate on PE loans and increase expenses on reserves held at Central Bank. Net commission income increased by HRK 8.4 million or 9 percent which is driven by overall growth of revenues in 2021 and in line with economic recovery after most of strict measures related to covid pandemic were relaxed.

Total operating costs increased by 4.3 percent due to higher personal expenses (mainly increase of variable costs) and G&A costs. In 2020, administrative costs, especially those directly related to business, were significantly lower and especially during the lockdown due to pandemic (March-May 2020).

Net impairment costs in 2021 were recorded in amount of HRK 19.6 million which is in line with loan portfolio and securities portfolio developments and lower by 72 percent in compare to 2020. Worth of mentioning is that provisions in 2020 were mainly result of implementation of new EBA stress coefficient and worsening Sovereign rating.

Total assets increased by 6.4 percent and amounted to HRK 9.6 billion, while net loans were in the amount of HRK 6.2 billion (increased by HRK 43 million or 0.7 percent) and customer deposits in the amount of HRK 6.6 billion (increased by HRK 471 million or 7.7 percent). NPL ratio increased compared to previous year by 20 bps, reaching a level of 4 percent, which is significantly lower than the banking sector average.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

Intesa Sanpaolo bank Bosna and Hercegovina (continued)

The Bank continuously enjoys comfortable liquidity position with available resources to sustain further expansion of credit portfolio.

The Bank's capital adequacy ratio at 19.47 percent and well above prescribed level by the regulatory agency, and the calculation doesn't include Net Profit of 2021 in the amount of HRK 123.4 million. Total equity amounted to HRK 1.3 billion.

Strategic objectives of the Bank for 2022 are planned in coordination with Privredna banka Zagreb - progressing with multi-year plan of investments for the infrastructural and technological modernization of the Bank, organizational changes in terms of increase of the competitiveness of Bank's commercial offers to clients, improving support in decision-taking for faster reaction to market changes and continuous assessment of risk profile of Bank's assets.

Intesa Sanpaolo Bank Slovenia

In 2021, Intesa Sanpaolo Bank's net profit reached HRK 133.2 million, a growth of 37.8 percent compared to previous year, confirming the Bank's ability to effectively face the challenging environment represented by the COVID-19 health crisis and negative interest rates.

With continuing economic growth in Slovenia which, measured as GDP, exceeded the pre-crisis level, the bank increased corporate and private lending. Growth of both mid-year loans for housing purchases and loans to non-financial corporations have been reported. With households spending more and also diverting savings into more profitable forms of saving, the mid-year saw a slowdown in the trend of increases in household deposits in banks. With low interest rates and uncertain epidemiological conditions, the banking sector continues to record an increase in sight deposits while fixed-term deposits are in decline. The banks had to face fierce price-competition for the granting of loans and for the attraction of new customers affected by social distancing in order to avoid the spread of coronavirus. In the banking system a further consolidation of the banks took place, first two largest banks NLB and NKBM have in total approximately 50 percent of market share.

Intesa Sanpaolo Bank managed to successfully cope with the challenges brought by the COVID-19 pandemics introducing the smart work from home for larger part of its employees, affirming its flexibility and technological readiness for the future challenges. Despite many uncertainties due to the coronavirus crisis, the Bank was able to successfully upgrade the new digital banking solutions, thus confirming its role as one of the most advanced Slovenian banks. It offers the possibility to open a new current account completely online to the prospect clients, and the new mobile banking application was again ranked as one of the best in country.

The COVID-19 conditions and especially lending interest rates at historical low levels affected the Bank's performance. Still, the implementation of the strategic projects over the year resulted in a much stronger Bank's position and image in the Slovenian banking industry, with good business results at the end of the year. The net interest income totalled HRK 288.8 million, by 1.2 percent increase on yearly level. A positive trend was noticed also at net fees and commission income, which increased by 15.2 percent in 2021 compared to previous year, reaching HRK 218.3 million. The highest growth was registered on current accounts (deriving from management fee on C/A volumes and introduction of C/A packages), on loans (much higher new production than in 2020) and on managed assets.

Total operating costs recorded a yearly increase of 1.4 percent mainly following the increase in other administrative expenses (IT maintenance and other services from third parties). Net impairment costs on loans portfolio amounted to HRK 15.0 million. It is the result of effective management of the non-performing loans and advanced risk monitoring processes. The non-performing to total loans ratio decreased from 2.5 percent in 2020 to 1.4 percent in 2021.

Total net assets increased by 17.6 percent to HRK 26,106 million with net customer loans in the amount of HRK 16,429 million and customer deposits in the amount of HRK 20,965 million. Equity amounted to HRK 2,455 million. The Bank's position in terms of available liquidity remains safe and ready to sustain planned further expansion of lending activity.

Intesa Sanpaolo Bank in Slovenia, a member of the international banking group Intesa Sanpaolo, is performing a re-launching initiative and business expansion, which stem from the positive performance and achievements attained by the Bank in Slovenia over the last 18 years, since the Bank became part of the Intesa Sanpaolo Group. Another important impulse to Bank's growth-propelling initiative has been achieved in 2017 with the transfer of 51 percent of the Bank's shares from Intesa Sanpaolo to Privredna banka Zagreb, a subsidiary bank of the ISP Group in Croatia. The new ownership structure is part of the Group's regional strategy aiming to increase synergies between its subsidiaries in revamping of its operations in Slovenia.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

PBZ Leasing

PBZ Leasing had a successful business year, earning net profit of HRK 19.33 million. In 2021, the Company signed new lease contracts in the total value of HRK 292 million, which is an increase of 11 percent compared to the previous year.

At the end of 2021, the Company's total portfolio included net fixed assets under operating leases in the amount of HRK 278 million (2020: HRK 302 million) and net receivables under finance leases in the amount of HRK 642 million (2020: HRK 672 million). Equity amounted to HRK 168 million at the end of the year.

In 2022, the business activities of PBZ Leasing will be focused on preparation for the implementation of the company's new strategy aimed primarily at financing legal entities both through its own channels and through the bank's channel.

PBZ Stambena Štedionica

Štedionica is still continuing with its successful operations so that in 2021 it achieved its goals in the most important business aspects.

In 2021 Štedionica realized a profit before tax amount of HRK 12.6 million, while the profit after tax amounts to HRK 10.3 million. Interest income amounted to HRK 31.8 million while the interest expenses amounted to HRK 14.6 million. The interest result is affected by the permanent trend of decrease in interests paid and received. Net income from fees and commissions amounted to HRK 4.5 million. Total assets of Štedionica as at 31 December 2021 amounted to HRK 1,775 million. In 2021 customer deposits amounted to HRK 1,510 million, Štedionica have the housing loan portfolio HRK 843 million. Equity of HRK 258.3 million support the stability of the Štedionica.

Business activities in 2021 were affected by prolonged pandemic of the COVID-19 situation. Štedionica, from the very beginning of pandemics, realized the seriousness of potential threat to the health of its employees and to the continuation of its business, so it adopted efficient organisational measures to deal with the new situation. To mitigate the consequences caused by COVID-19 pandemics, Štedionica enabled a loan repayment suspension (moratorium) to all borrowers who were repaying their loans regularly but for whom the financial situation deteriorated resulting in decrease or total loss of their income.

This result is due to the planned and implemented business strategy of conservative and systematic approach to all risks arising from the business, particularly to the credit risk. Privredna banka Zagreb d.d., our parent company and the main channel of housing savings and loans selling, also made a significant contribution to the performance of Štedionica and further growth of our market share.

The crisis caused by the Coronavirus pandemics and uncertainties related to loosening of the present restrictions and returning to regular circumstances and way of life in the Republic of Croatia will definitely have negative effects, not only on the whole economy, but also on the purchasing power of our clients, which is why Štedionica is expecting a fall in housing deposits. Štedionica, as member of PBZ Group, will also in the future permanently carry out the defined business strategy, based on the relationship with clients, constantly monitor the clients' requirements and adapt its offer of housing savings and housing loans to their needs. Štedionica will continue to implement the conservative policy of risk management and permanent monitoring of expenses, as well as to use the available resources of PBZ Group to realize positive business results.

PBZ Croatia Osiguranje

PBZ Croatia Osiguranje continues to achieve positive financial results. In 2021 the Company reached net profit of HRK 21.4 million. At the same time, the cost income ratio stands at 64 percent. Total assets as of 31 December 2021 were HRK 141 million and equity HRK 110.4 million. Net profit was influenced by the statutory change of management fee from 0.3 percent in 2020 to 0.284 percent in 2021. PBZ Croatia Osiguranje is a well-recognised and highly respectable pension fund management company in Croatia.

Development strategy for 2022 will be oriented at maintaining its status within the general public in the country as well as successfully managing the funds' assets.

Management Board report of the Status of the Group (continued)

Risks to which the credit institution is or might be exposed

Bank directs particular attention to identification of risks to which is or might be exposed to. Identification is conducted through risk mapping – technique that is used to determine the existence of risks and assess risk significance for each of the defined units of observation. Units of observation can be:

- in a comprehensive risk identification: all legal entities in the PBZ Group, meaning that the existence and significance of all types of risks is determined for each member of the PBZ Group, or
- in a partial risk identification: individual members of the PBZ Group, introduction of new products, outsourced activities, and the like.

Identification is comprehensively conducted in cooperation with senior management of the PBZ Group and relevant control functions as one of the key phases of ICAAP process. The comprehensive risk identification and mapping is performed on annual basis, the procedure is also used partially in case of outsourcing, introduction of new products or implementation of significant business changes.

The risk mapping is based also on Risk catalogue containing risk definition used by the PBZ Group, which are aligned to risk definitions defined within CNB Decision on risk management and mapped to corresponding ISP risk.

Risk map of PBZ Group and their significance determined for 2021:

High significance	Medium significance	Low significance
Credit risk	Strategic risk	Market risk
Liquidity risk	Reputational risk	Equity risk in banking book
Operational risk	Outsourcing risk	Real estate risk
Interest rate risk		Risk of excessive financial leverage

Credit risk - The Bank as a credit institution is primarily oriented to the providing traditional banking services (loans, deposits) which account for a major portion of total assets of the Bank therefore the credit risk represents the most significant risk for the Bank. Capital requirement for credit risk represents a major part of total regulatory capital requirement. Bank puts continuous focus on credit risk management and particular attention is directed to maintenance of sound credit portfolio and appropriate credit risk measurement and monitoring. During 2021, given the still uncertain development of the pandemic caused by the COVID-19 breakout, but also other macroeconomic risks (such as inflation, supply chain disruptions etc.) the Bank implemented several measures (respecting all regulatory requirements and guidelines) and kept explicit focus on the development and changes in credit portfolio quality.

Therefore, as a key and most significant risk in Bank's portfolio, credit risk is defined as a risk of high significance.

Liquidity risk – During 2021, Bank continued period of high liquidity and ensured alignment to all internal and external requirements. Nevertheless, the liquidity management process in the Bank is continuously being improved – both in terms of liquidity governance principles and enhancement of technical support/ tools for liquidity measurement. Liquidity risk will continue to be treated as highly important, with ongoing focus on ensuring continuously sufficient level of liquidity and constant alignment with regulatory requirements and other valid regulations. Moreover, adequate focus is also directed to structural liquidity, ensuring sufficient equilibrium between long term assets and related required available sources of funding. Taking in consideration all above mentioned, liquidity risk is deemed as highly significant.

Operational risk – the Bank is continuously exposed to operational risk. Even though the comprehensive and rigorous operational risk management system is in place, due to its nature this risk is considered as highly significant.

Management Board report of the Status of the Group (continued)

Risks to which the credit institution is or might be exposed (continued)

Interest rate risk – Interest sensitive items account for a major portion of total assets and total liabilities making majority of PBZ Group balance sheet subjected to Interest rate risk. During last period/years the overall market and also PBZ is facing the changes customers' risk-taking preferences and therewith related changes in interest rate risk exposure, with high demand of loans in domestic currency with fixed interest rates. Being fully aware of changes in customer preferences and its impact on interest rate exposure, Bank timely recognized above explained changes, directed particular attention to risk management and monitoring activities and decision-making process. Moreover, during 2021 Bank focused its activities on implementation of macro hedge IRS (Interest rate swap) as a mitigation measure. In addition, the Bank continued to carefully manage interest rate risk and maintained its mark as a highly significant risk.

Strategic risk – With a broader perspective of strategic risk impact on strategic objectives achievement, Bank anticipated requirement for establishment of strategic risk management framework and risk monitoring. Strategic risk management include both internal and external forces that may threaten the achievement of Banks strategic objectives. Moreover, the strategic planning and key related activities are done under tight cooperation and guidance of ISP Parent Company which ensures the alignment and compliance of Group strategic principles within overall ISP Group. The analysis of strategic risk is integral part of Banks strategy definition process and general risk management framework. In addition, acknowledging overall raising importance of the ESG (environmental, social and governance) risks as one of key topic from several perspectives (regulatory, political etc) - Bank recognized the need to address additional and specific focus on enhancement of inclusion of ESG risks management within regular business/mode of operation but more specifically in strategic management process and corresponding transition that is expected to happen on medium-long term horizon. However, it should be additionally highlighted that the situation related to Coronavirus outbreak was monitored with specific caution, taking in consideration its impact on overall economy and related impact also on Bank's results and budget targets achievements.

Therefore, strategic risk significance is deemed as medium. However, it should be additionally highlighted that the situation related to Coronavirus outbreak was monitored with specific caution, taking in consideration its impact on overall economy and related impact also on Bank's results and budget targets achievements.

Reputational risk – adequate reputational risk management is an important part of a general risk management framework. Bank recognized importance of reputational risk management and established reputational risk management system with clear definition of actions and responsibilities. Apart from definition of key functions of reputational risk management, additional effort is directed into definition of preventive actions for reputational risk control as defined by internal regulations, such as:

- Confidentiality of information (banking secret, business secret, classification of confidential data etc.);
- Clear lines of public communication;
- Codes regarding ethical behaviour of its employees;
- Anti-money laundering and prevention of terrorist financing;
- Exclusion of some activities from financing by the PBZ Group;
- Special scrutiny for financing political parties and politically exposed persons.

All reputational risk related internal regulation is clearly communicated and distributed among all Bank employees. Finally, through hereby explained reputational risk management principles, particular effort is directed to achievement of embedding preventive reputational risk actions into the core functions at all hierarchy levels. Therefore, reputational risk significance is deemed as medium.

Outsourcing risk – The Bank has implemented well defined and prudent rules and procedures in case of initiation of outsourcing activities assuming comprehensive risk analysis and identification, definition of outsourcing activity significance and regular control and monitoring of quality of outsourced service. Bank is carefully monitoring all regulatory novelties and requirements and adjusting its outsourcing rules in line with valid regulatory framework. Nevertheless, due to existence of significant outsourced activities on PBZ Group level, this risk is deemed as of medium significance.

Management Board report of the Status of the Group (continued)

Risks to which the credit institution is or might be exposed (continued)

Market risk - Trading book positions are insignificant. Most significant market risk exposure is risk arising from debt securities trading positions and currency risk arising from Banks open position management. Nevertheless, Bank has well defined framework for market risk management including definition of roles, responsibilities, measurement methodologies, monitoring and reporting principles and limit structure for market risk exposures. Therefore, market risk significance is deemed as low.

Equity risk in Banking Book - Bank has negligible amount of equity investments. Therefore, banking book equity risk significance is deemed as low.

Real Estate risk - Bank does not hold real estates for speculative purposes, almost all property owned by PBZ is used as own long-term business premises. Therefore, real estate risk significance is deemed as low.

Risk of excessive financial leverage – leverage ratio is defined as one of Bank's strategic limits that should be maintained above prescribed minimum. Limit compliance is monitored on quarterly basis. Taking in consideration that bank is well capitalized and that maintaining of adequate ratio of capital and overall assets¹ is of strategic importance of the Bank, significance of this risk is considered as low.

Corporate governance structure

In accordance with the Companies Act, the Credit Institutions Act, and the Bank's Articles of Association, the bodies of the Bank are the General Meeting, the Supervisory Board, and the Management Board. The mentioned acts regulate also their duties and responsibilities.

Supervisory Board

The Supervisory Board of the Bank supervises the conduct of business affairs in the Bank. With this end in view, it goes through and examines the Bank's business books and documentation. The Supervisory Board submits to the General Meeting of the Bank a written report on the supervision exercised with respect to the conduct of business affairs in the Bank. The Supervisory Board consists of seven members. As a rule, regular Supervisory Board meetings are called quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter. Nineteen Supervisory Board meetings were held in 2021 with the regular attendance of all members. The members of the Supervisory Board of the Bank are elected for a three-year term of office.

Members of the Supervisory Board as of 31 December 2021 are the following:

Ignacio Jaquotot, President of the Supervisory Board – term of office from 23 April 2019

Draginja Đurić, Deputy President of the Supervisory Board – term of office from 2 April 2020

Beata Kissné Földi, Member of the Supervisory Board – term of office from 23 February 2020

Branko Jeren, Member of the Supervisory Board – term of office from 22 April 2019

Luca Leoncini Bartoli, Member of the Supervisory Board – term of office from 26 August 2020

Giulio Moreno, Member of the Supervisory Board – term of office from 30 November 2020

Christophe Velle, Member of the Supervisory Board – term of office from 18 October 2019

¹ For calculation of leverage ratio adjusted assets is used in line with defined ISP Group methodology and standards.

Management Board report of the Status of the Group (continued)

Corporate governance structure (continued)

Audit Committee

Pursuant to the Articles of Association of Privredna banka Zagreb d.d., the Supervisory Board established the Audit Committee at its 15th meeting held at 10 December 2002. The work of the Audit Committee is regulated by the Rules of Procedure of the Audit Committee and the corresponding Operational Rules.

The Audit Committee has been appointed in accordance with the law and the parent bank's rules. In 2019 until 31 October, it worked as a body composed of five members. Namely, the composition of the Audit Committee was aligned in June 2018 with the provisions of the new Audit Act so that the Committee is now composed of three independent members of the Supervisory Board of the Bank, appointed by the Supervisory Board, and two members appointed by the General Meeting of the Bank. As of 1 November 2019, Audit Committee is composed of three members of the Bank's Supervisory Board appointed by the Supervisory Board who serve a three-year term of office. Most of the members of the Audit Committee are independent from the Bank. In 2021 seven meetings of the Audit Committee were held with regular attendance of all members. The Audit Committee discussed at its meetings the issues within the competence of the Supervisory Board. The Audit Committee helped the Supervisory Board in carrying out its duties related to the supervision of the administrative and financial governance process, the audit process (including the recommendation of the General Meeting for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics. The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through independent control functions (internal audit, risk control, compliance, anti-money laundering), in order to establish such a system of internal controls that will enable early detection and monitoring of all risks to which the Bank is exposed in its operations.

Composition of the Audit Committee as of 31 December 2021:

- **Beata Kissné Földi**, President from 3 February 2021 (Member from 23 February 2020 to 2 February 2021)
- **Giulio Moreno**, Member from 3 February 2021 (President from 2 February 2019 to 2 February 2021)
- **Branko Jeren**, Member

Permanent invitees attending Audit Committee meetings as of 31 December 2021:

- **Carlo Grazio** from 26 May 2021
- **Andrea Nani** from 30 April 2020
- **James Vason** from 26 May 2021

Until 25 May 2021, Audit Committee meetings were attended by the following permanent invitees:

- **Massimiliano Masturzo** from 30 April 2020
- **Andrea Nani** from 30 April 2020
- **Daniele Davini** from 30 April 2020

PRIVREDNA BANKA ZAGREB d.d.

Management Board report of the Status of the Group (continued)

Corporate governance structure (continued)

Management Board of the Bank

The Management Board conducts business operations of the Bank. Members of the Management Board are appointed for a term of three years, during which they are in charge of certain areas of business. In 2021, the number of members of the Management Board was first increased from six (6) to seven (7) members by appointing Mrs. Vedrana Jelušić Kašić as a new member of the Management Board, whose term of office began on 16 September 2021. The number of members of the Management Board from first December 2021 was reduced from seven (7) to six (6) members due to the transfer of Mr. Darko Drozdek to a new position outside the PBZ Group. The Management Board regularly meets every two weeks, more frequently if necessary, to reach management decisions.

Enlarged meetings of the Management Board of the Bank are held monthly and they include the participation of heads of subsidiaries in the Republic of Croatia (PBZ Card d.o.o., PBZ stambena štedionica d.d., PBZ Leasing d.o.o.) and subsidiary banks (Intesa Sanpaolo Banka d.d., BiH, Banka Intesa Sanpaolo d.d., Koper). Representatives of the competent organizational units of the parent bank's ISBD are regularly invited to these sessions. These meetings consider financial reports and important issues concerning business operations of the mentioned subsidiaries.

Members of the Management Board of the Bank as of 31 December 2021:

Dinko Lucić, President of the Management Board, manages the activities of the Management Board, coordinates all business functions within the Bank and the PBZ Group, and he is also responsible for: (a) Control and Logistic functions: Internal Audit, Compliance, Cybersecurity and BCM, HR and Organization, Legal Affairs, PR and Marketing Communication, General Secretariat, Customer Satisfaction and Complaints; (b) at the same time, until the appointment of a new member of the Management Board and the issuance of prior consent of the Croatian National Bank to perform this function, he is responsible for Retail and Small Business and coordination of PBZ Group companies in retail and card business - term of office from 12 February 2021.

Alessio Cioni, Deputy President of the Management Board, responsible for: (a) Control and Logistic functions: Anti-Money Laundering and Project Management in terms of strategic projects, (b) coordination of the CFO area, the COO area and the Risk Management and Control (CRO area) except the Risk Management function and Internal Validation function; (c) coordination of subsidiary banks in alignment with the Banking Subsidiaries Coordination Committee - term of office from 14 September 2020.

Antonio Bergaglio, Member of the Management Board responsible for: (a) the CFO area; (b) coordination of PBZ Group companies in the segment of finance (CFO area) - term of office from 7 September 2020.

Vedrana Jelušić Kašić, Member of the Management Board responsible for: (a) Corporate Medium and Large Business and Investment Banking; (b) coordination of subsidiary PBZ Croatia osiguranje d.d. for the management of mandatory pension funds and PBZ-Leasing d.o.o. – term of office from 16 September 2021.

Draženko Kopljar, Member of the Management Board responsible for: (a) Chief Operating Officer area (COO); (b) coordination of PBZ Group companies in the segment of information technology and operations - term of office from 11 February 2021.

Andrea Pavlović, Member of the Management Board responsible for: (a) Chief Risk Officer (CRO) area; (b) coordination of PBZ Group companies in the segment of risk management and control - term of office from 15 May 2019.

Dinko Lucić
President of the Management Board



22 February 2022

Macroeconomic developments in Croatia in 2021

External environment

Following the strong economic contraction caused by the coronavirus pandemic in 2020, the year of 2021 was marked by the economic recovery and according to estimates of the International Monetary Fund (World Economic Outlook, October 2021), it is expected that the growth of global output might amount to around 5.9%, with growth in developed countries estimated at around 5.2%. The estimated growth rate of gross domestic product in the euro zone is around 5.0%, while for the United States economy a stronger growth rate is expected of 6.0% year-on-year. Simultaneously the expected growth rate for developing countries and emerging markets is around 6.4%.

Therefore, as year, despite the still uncertain pandemic conditions, was marked by a strong economic recovery, the return of inflationary pressures took place. Strong growth in the prices of oil and a range of raw materials and intermediate products due to bottlenecks and disruptions in supply chains, and since the autumn also of natural gas and electricity, have pushed inflation to unprecedented levels in recent decades. Thus, at the end of the year, there was an inflation rate of 5.0% in the euro zone and 7.0% in the USA respectively.

Financial markets during 2021 continued to be characterized by low or negative interest rates and accommodative monetary policy, with the aim of maintaining financial stability and favourable financing conditions for all sectors of the economy. However, intensifying inflationary pressures prompted central banks to change their rhetoric during December. Thus, on 15 December, the Bank of England, as the first of the world's most important central banks, decided to raise the key interest rate by 15 b.p. to 0.25%. At its session held on the same day, the US FED decided to keep interest rates at existing levels, but significantly accelerate the reduction of the securities purchase programme. Thus, from January 2022 net purchases will be 1/3 lower and amount to 60 billion dollars, and a similar pace of reduction may be expected also in the coming months, which would shut down the programme in mid-March. This would probably be followed by the first federal funds rate hike, and 2022 is expected to bring three waves of its increase until it reaches the level of 0.9% (now at 0.1%), and interest rate rises would continue also in 2023 (three hikes) and 2024 (two hikes) which would bring the rate in late 2024 to reach 2.1%. Only one day later (16 December 2021) also a meeting of the ECB was held, which, like the FED, kept interest rates and forward guidance unchanged, but a largely expected reduction of the pandemic emergency purchase programme (PEPP) was announced from January 2022 and its completion in March followed by an increase in the asset purchase programme (APP). The APP will thus be raised from the current 20 billion euros to 40 billion euros in the second quarter and gradually reduced to 30 billion euros in the third quarter and 20 billion euros from October 2022 onwards, i.e. for a period 'as long as necessary'. However, it is important to note that the ECB has decided to maintain the flexibility to reinvest or even reactivate net purchases within the PEPP, taking into account peripheral highly indebted countries. Likewise, the announcement of the asset purchase programme for almost the entire 2022 implies that there will be no interest rate hikes in the coming year.

Although 2021 started with an exchange rate of \$1.22 per euro, during the year and especially towards the end of the year there was a weakening of the euro and the year ended with an exchange rate of \$1.11 per euro.

Economic developments among major Croatian foreign trade partners during 2021 were marked by a relatively strong economic recovery. The IMF expects the growth rate in 2021 to be 5.8% in Italy, 3.1% in Germany and 6.3% in Slovenia.

Strong V-shaped recovery followed by a return of inflation

Although still gripped by the pandemic, 2021 brought a global recovery in economic activity marked by rising prices of energy products and raw materials and intermediate products caused by bottlenecks and interruptions in global supply chains. The latest available estimates from the International Monetary Fund in October 2021 indicate that the global economy grew by around 5.9% in the last year, with growth in the euro area at around 5.0%, and in the economies most important from our perspective such as Germany's and Italy's at 3.1% and 5.8% respectively. In 2021, financial markets continued to be characterised by low or negative interest rates and accommodative monetary policy, with the aim of maintaining financial stability and favourable financing conditions for all sectors of the economy. However, the strengthening of inflationary pressures prompted central banks at the end of the year to change their rhetoric regarding its transient nature. Thus, the Bank of England was the first of the major central banks to raise the key interest rate, while the US FED decided to keep interest rates at existing levels, but significantly accelerate the reduction of the securities repurchase scheme by announcing a (triple) interest rate hike in 2022. At the same time, the ECB also kept interest rates and the forward guidance unchanged, but a largely expected reduction of the pandemic emergency purchase programme (PEPP) was announced from January 2022 and its completion in March.

Macroeconomic developments in Croatia in 2021 (continued)

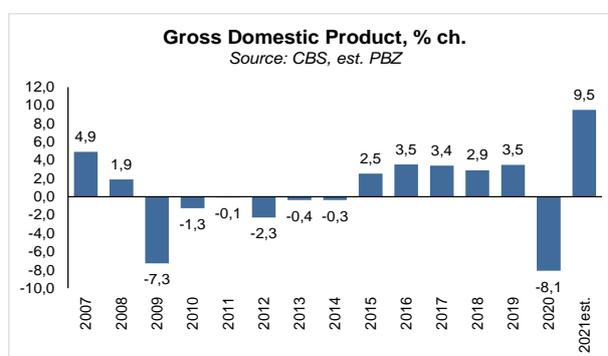
Strong V-shaped recovery followed by a return of inflation (continued)

Despite the challenges of the third and fourth pandemic wave, and low population vaccination coverage, the Croatian economy has seen a strong and rapid recovery in 2021. Economic growth was widespread, whereby it is particularly important to single out the continued strong double-digit growth of goods exports, and the exceptionally successful tourist season, which exceeded the record comparable quarter of 2019 in terms of revenues generated from foreign tourists during the third quarter. Owing to positive labour market trends, including employment and wage growth, personal consumption posted a strong recovery, while investment growth was supported by EU funds. Based on the available data, we estimate that growth in 2021 amounted to at least 9.5%, by which the domestic economy fully compensated for the 8.1% decline recorded in 2020, and also recorded one of the stronger growth rates within the EU.

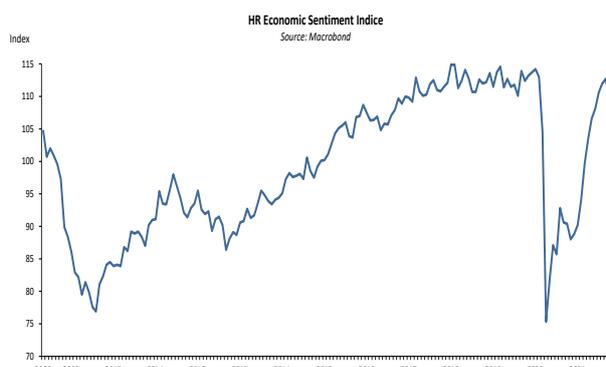
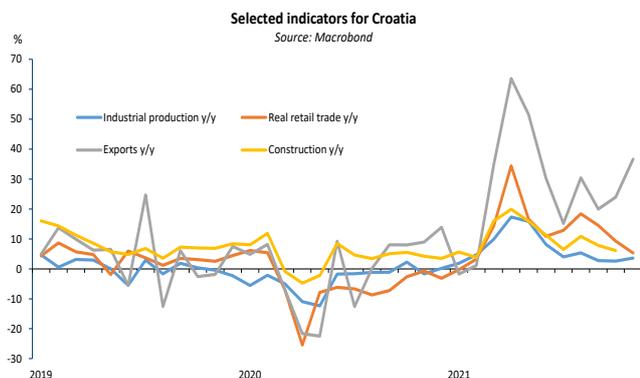
The achieved strong and rapid recovery as well as progress in fiscal indicators as early as in 2021, the expected accession to the euro area in early 2023, as well as positive expectations for economic growth and further improvements in fiscal indicators in the upcoming period, in November led to an improvement in the credit rating by Fitch to the BBB level, which is also historically the highest rating of the country, which thus further rounded off the positive economic story of the year 2021.

Strong V-shaped recovery

Gross domestic product in the first three quarters of 2021 recorded an increase of 10.7% year-on-year, with equally strong growth of 16.5% and 15.8% respectively recorded in the second and third quarter, while the first was still experiencing a contraction of 0.6% year-on-year. Growth of the economy in the observed period was driven by both strong domestic demand (personal consumption +10.9% and investments +10.0%) and recovered foreign demand. Namely, during the first three quarters we recorded an extremely rapid growth in exports of goods (+18.2%) while a strong positive contribution to GDP growth, especially in the third quarter, also came from an unexpectedly successful tourist season, as revenues from foreign tourists in the said quarter amounted to 6.8 billion euros (2.2% more than the record year of 2019).



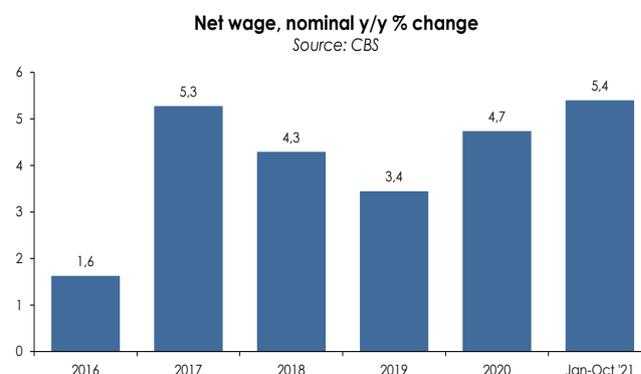
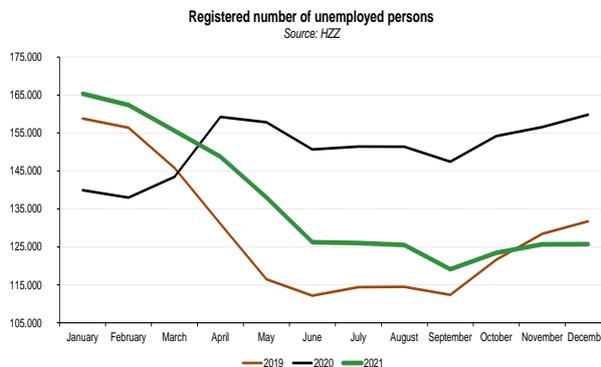
Favourable movements also continued in the last quarter, as high-frequency indicators for November and October indicate a steady (although lower compared to the first three quarters, due to the gradual fading of the low base effect in the year before) annual growth in industrial production (average +3.1%; +6.7% in the first eleven months), followed by a strong growth of exports (+30.2% and +26.6% respectively from January to November). At the same time, real turnover in retail trade increased by an average of 7.3% year-on-year, while at the level of the first eleven months the growth was +12.4%, owing to the recovery of demand, strong tourism activity (the growth of overnight stays in commercial accommodation in 2021 was 70.6% year-on-year, reaching the level of 77% of overnight stays achieved in the record 2019), greater consumer optimism and favourable trends in the labour market. Construction activity has been on the rise for some time and this trend continued also throughout 2021 (+10.3% from January to October), with the sector primarily supported by investment activities financed by EU funds, but also by the recovery of private investments, i.e. housing construction. In line with the described continuation of positive developments in the last quarter, we expect the growth of gross domestic product in 2021 to be at least 9.5%.



Macroeconomic developments in Croatia in 2021 (continued)

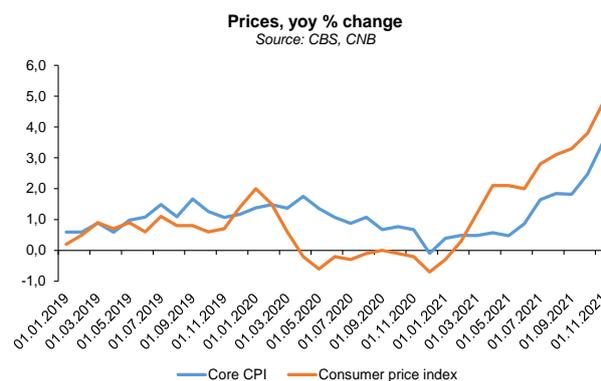
Positive developments in the labour market

Total number of employed persons in 2021 was on average 2.2% higher compared with 2020 (reaching 1.575 m), primarily due to the growth in the number of new hires in Construction (+5.3%), followed by Accommodation and food service activities (+5.1%, due to an unexpectedly good tourist season), Education (+2.9%) and Information and Communication (+7.0 %). Contribution of two activities (out of 19, according to the national classification of activities) was at the same time negative: Mining and quarrying and Financial and insurance activities, which recorded a decrease in the number of employed by 3.1% and 1.3% respectively, while in the remaining activities the contribution to the overall increase was insignificant or completely absent. In parallel with good tourism indicators and widespread economic growth, the number of unemployed decreased by 8.0% year-on-year, reaching an average of 137 thousand, with the adjusted unemployment rate reaching 8.0% (down by 0.9 p.p. compared with 2020). Compared to pre-pandemic year of 2019, employment levels in 2021 were significantly higher in Construction (+11.1%), while on the other hand the number of employed was significantly lower within the Accommodation and food service activities (-10.2%), given the still lower level of tourist activity compared to the time before the Covid-19 outbreak. Wage growth accelerated in 2021, inter alia under the influence of minimum wage increase, tax changes in the income tax system, increase in the wage base in state and public services, and labour shortages, thus in the period between January and October the annual growth in the average net salary amounts to 5.4% in nominal terms, whereby, when it comes to the level of the growth rate, Information and Communication (+8.8%), Healthcare and social welfare (+8.3%) and Education (+7.6%) are leading the way.



Strengthening inflationary pressures

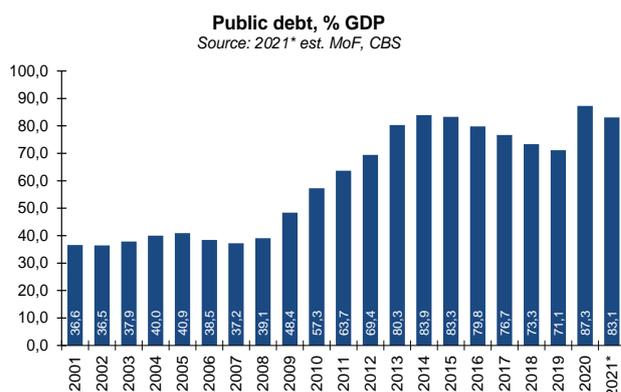
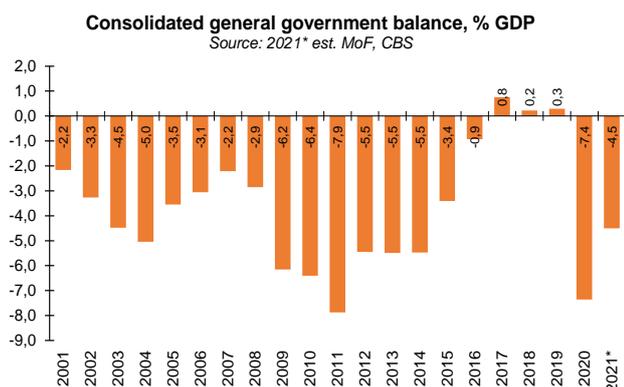
In the period from January to November 2021, the average annual growth in consumer prices reached 2.3%, mainly due to the 7.9% higher level of the price of Transport, which is largely attributable to a higher level of the price of crude oil on the market, which resulted in a 16.2% increase in the prices of Fuels and lubricants for personal transport equipment. As the situation with the rise in fuel prices escalated, during October the Government of the Republic of Croatia introduced a limit on the highest price of petrol and diesel fuel to HRK 11 (gas fuel was exempt), only to revoke the same decision in December in view of the m-o-m drop in the prices of petroleum products, i.e. lowering from levels of around \$82 per barrel (Brent type), to around \$75. Although during the autumn there was a record increase in gas prices in Europe, the increase in the prices of this energy product as well as in electricity for domestic households did not occur since it was administratively determined until April 2022. A slightly more modest contribution to the overall increase in consumer prices also came from price increases within the categories of Alcoholic beverages and tobacco (by 5.9%, due to an increase in excise duties on tobacco and tobacco products), Housing, water, electricity, gas and other fuels (+1.4%, of which gas +8.5% due to price correction in April 2021) and Food (+1.0%), which nevertheless recorded a slightly more modest growth, primarily due to negative values in the first part of the year, while towards the end of 2021 there was a more significant increase in line with developments in the global market (according to the Hamburg Institute of International Economics, the prices of Food in November 2021 reached their highest level since October 2012, and are up by 31.6% year-on-year).



Macroeconomic developments in Croatia in 2021 (continued)

Improving fiscal balance and reducing public debt ratio

Although the strong V-shaped recovery of the economy has had a positive impact on the growth of budget revenues, the pressure on the expenditure side (primarily the rehabilitation of the health system) has prevailed and the estimate after two amending budgets indicates that the deficit at the consolidated general government level in 2021 should be at the level of around 4.5% of GDP, an improvement from the 7.4% deficit recorded in 2020, but also worse than the originally planned deficit (-2.9%). However, positive trends, owing to the strong GDP growth, are recorded in the public debt ratio, which is expected to end the year at the level of 83.1% of GDP, down by 4.2 p.p. compared to the end of 2020.

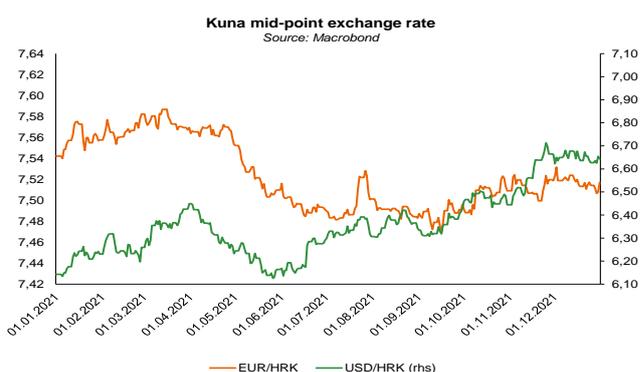
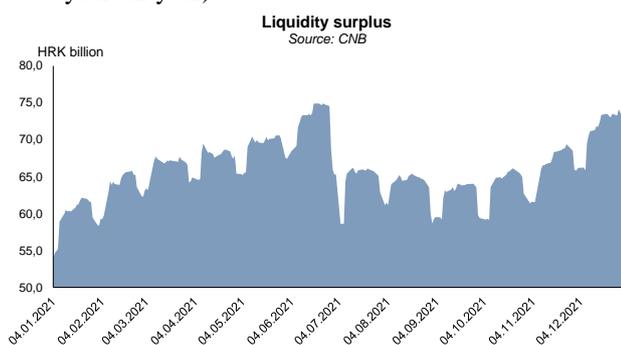


Historically highest level of rating

In 2021, the money market recorded a stagnation in quoted informative HRK interest rates accompanied by a lack of demand at the central bank's regular weekly liquidity operations due to a sharp increase in excess liquidity. The surplus reached an average of HRK 66bn, 63% more than the year before and 15% of the estimated GDP for 2021. As a result, structural repo operations were absent, while the reserve requirement ratio was unchanged. The interest rate on one-year HRK treasury bills was gradually cut by 6 b.p. during the year to 0.00%, while the interest rate on one-year HRK bills with a currency clause was lowered by 10 b.p. to -0.15%.

The spread between domestic HRK and German government bonds narrowed by an average of 60 b.p. in 2021 year-on-year (to 90 b.p.) owing to a reduction in uncertainty, strong recovery in economic activity and improvement of the rating in November (Fitch raised Croatia's rating from BBB- to the historically highest level of BBB). At the same time, the average yield on the 10-year HRK bond dropped by 40 b.p. to 0.6%. The yield on the 10-year euro bond was in 2021 down by 10 b.p. compared to the previous year amounting to 0.9%, while the spread between it and the Bund was reduced by 30 b.p. to 130 b.p. At the end of February, the Republic of Croatia issued two tranches of euro bonds on the international capital market in the total amount of EUR 2 billion due in 2033 with a yield of 1.257% and due in 2041 with a yield of 1.788%. At the end of June, on the domestic capital market the issue of the 7-year bond worth HRK 9 billion was realised with a yield of 0.533%.

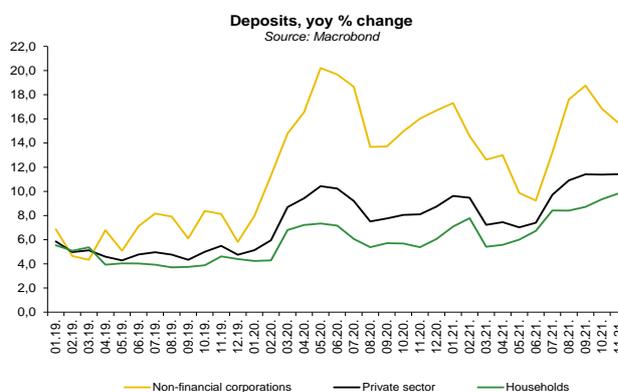
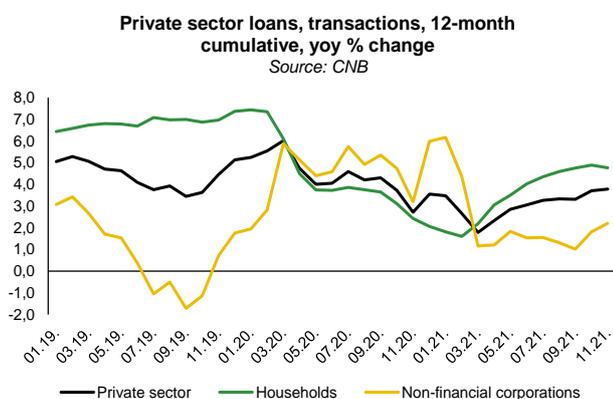
The HRK exchange rate was calm in the entire first year in the ERM II, and slightly more pronounced appreciation pressures were observed during the summer. Only two foreign exchange auctions were held in the first half of the year through which net 70 million euros were placed to banks. The swap line with the ECB was extended until the end of March 2022 at the beginning of the year, which contributed to market stability. The average HRK/EUR exchange rate in 2021 reached HRK 7.52 per euro (-0.1% year-on-year), while the average exchange rate against the dollar dropped to HRK 6.36 per dollar (-3.7% year-on-year).



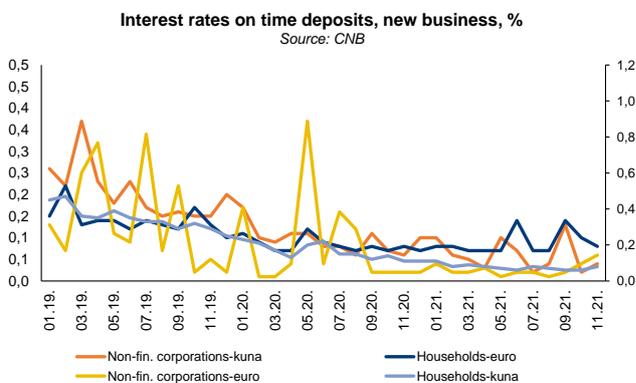
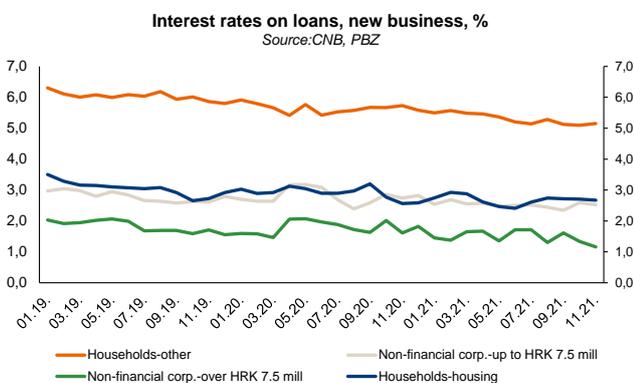
Macroeconomic developments in Croatia in 2021 (continued)

Preserved portfolio quality

Growth of bank assets was strengthened primarily due to faster growth in deposits accompanied by slower growth in the loan portfolio amid a decrease in the central government indebtedness and a lower growth rate of loans to the private sector. The latter lost momentum due to weakening credit demand from non-financial corporations, most notably large companies. The moratoria, of which in 2021 a part was still active in the corporate loan portfolio, were mainly due at the end of the second quarter. Housing loans continued to grow strongly supported by subsidies, while cash loans rebounded thanks to declining uncertainty and rising employment. Total loans received a 3.0% year-on-year increase at the end of November 2021, with loans to central government and social security funds contracting by 0.6%, and private sector advancing by 2.8% (households 4.2%, non-financial corporations 0.7%). According to transactions, the cumulative growth of loans to the private sector was noticeably higher, especially among non-financial corporations (impact of placement sales) and in November it was 3.8% year-on-year (households 4.8%, non-financial corporations 2.2%). Deposit growth continued to accelerate driven by the economic recovery against the backdrop of continued increased caution of the private sector, postponement of investment and aversion to riskier investments. In November, total deposits were up by 11.3% year-on-year (households 9.8%, non-financial corporations 15.7%), with funds in transaction accounts increasing by 22.0%, HRK savings by 3.4% and foreign currency savings by 5.1%. Foreign currency savings of households closed November at a 5.9% higher y-o-y level, the highest growth rate in a decade, while HRK savings of citizens continued to fall (-5.9%), in line with the approaching of the expected date of joining the eurozone.



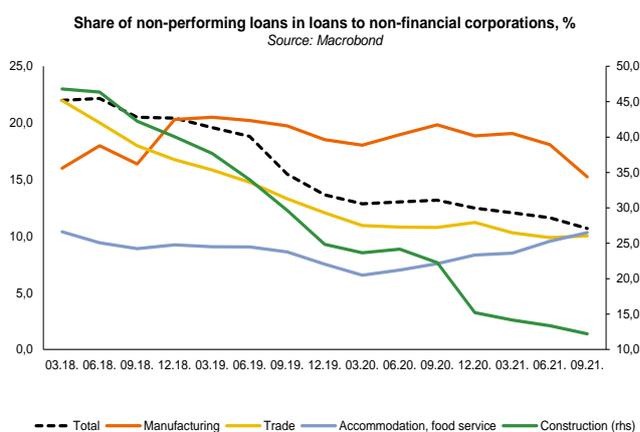
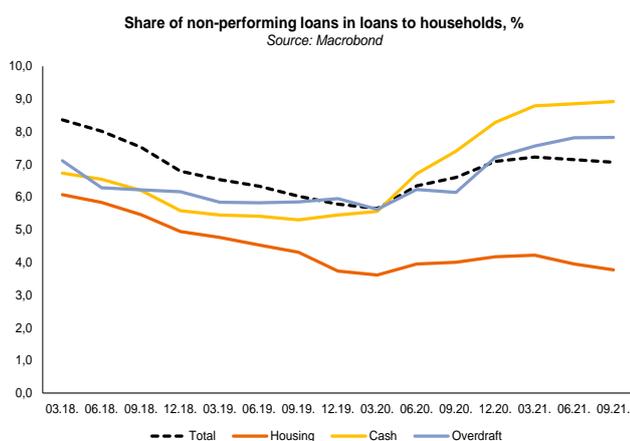
Interest rates of banks continued their downward trend due to record liquidity, stagnation in reference interest rates, improvements in the country's rating and increased competitive pressures in an environment of moderate credit demand of the private sector. Compared to the average in 2020, over the first eleven months of 2021, the average interest rate on loans to the private sector decreased by 40 b.p. on HRK loans (to 5.2%), i.e. 30 b.p. on loans with a currency clause (to 2.7%). On average, the interest rate on housing loans dropped by 20 b.p. (to 2.7%), while the interest rate on loans to companies was cut by 30 b.p. (to 2.5% on loans up to HRK 7.5 m, i.e. to 1.5% on loans above this amount). The average interest rate on private sector term deposits was simultaneously reduced by 10 b.p. on both HRK and FX savings (to 0.1% both).



Macroeconomic developments in Croatia in 2021 (continued)

Preserved portfolio quality (continued)

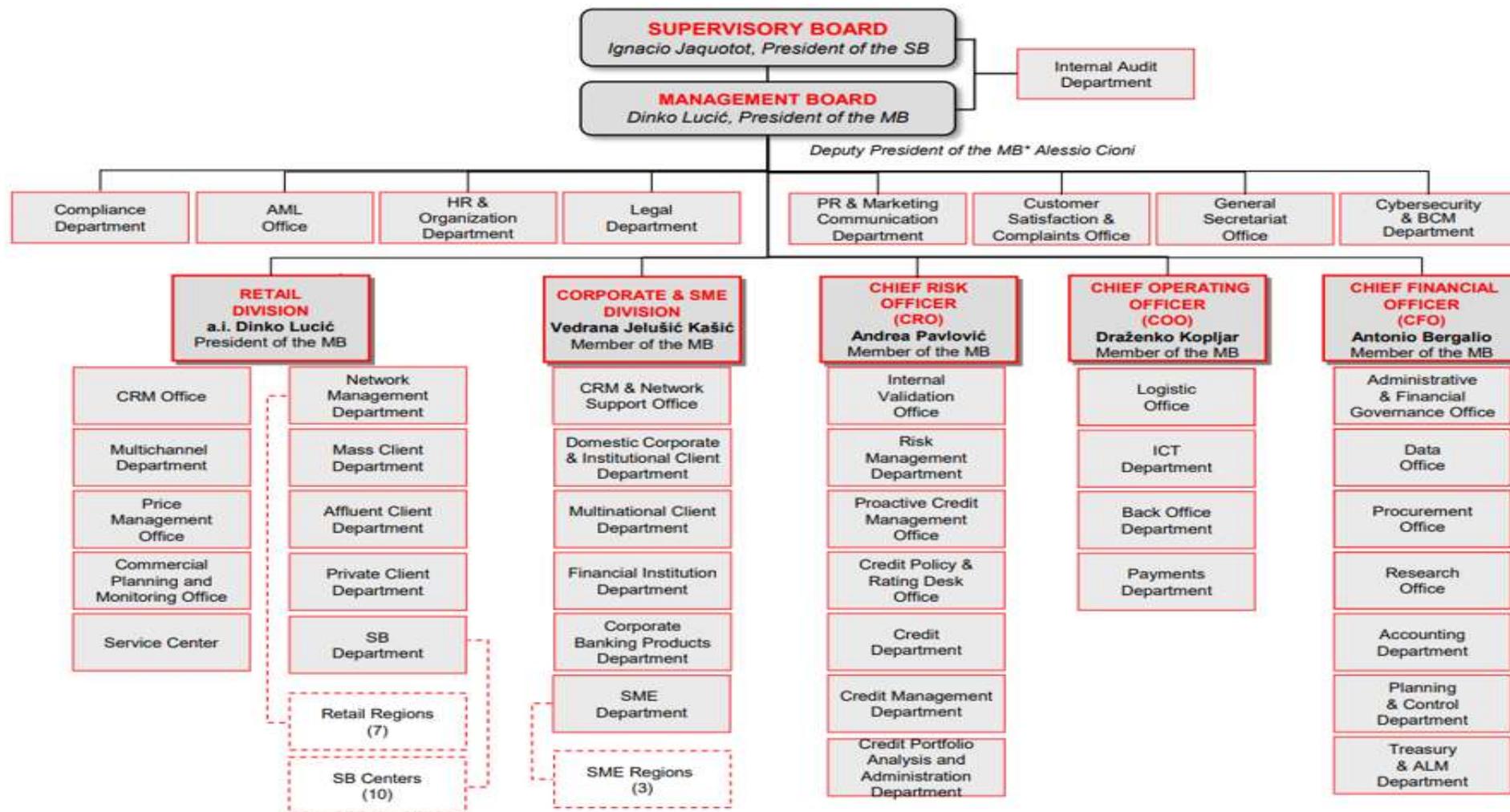
The growth of new placements, sale of problem loans and strong economic recovery resulted in an improvement in the quality of loans in the first three quarters of 2021. At the end of September, the share of non-performing loans in total loans of credit institutions thus stood at 4.7%, down by 0.8 p.p. compared to the end of December 2020. Loans to households recorded a stagnation of the share at 7.1%, with housing loans posting decline in the share (-0.4 p.p. to 3.8%) owing to a leap in the newly approved loans. Cash loans and overdrafts, placed with more relaxed conditions, simultaneously increased by 0.6 p.p. to 8.9% and 7.8% respectively. Loans to non-financial corporations in the first three quarters of 2021 recorded a decrease in the share of non-performing loans by a sharp 1.8 p.p. to 10.7% owing to a reduced share in agriculture (-8.5 p.p. to 7.4%), construction (-3.0 p.p. to 12.2%), manufacturing (-3.6 p.p. to 15.2%), and trade (-1.2 p.p. to 10.0%). In accommodation and food service activities, however, there was an unfavourable trend (+2.0 p.p. to 10.3%) due to a prolonged period of epidemiological measures that strongly pressured the sector's revenues.



The decline in the share of non-performing loans and reduction in uncertainty led to a recovery in the operations of credit institutions in the first nine months, with returns on assets and equity thus reaching 1.2 and 8.3%, respectively, up by 0.5 and 3.9 p.p. compared to the entire 2020. Hence, total capital ratio of credit institutions at the end of September amounted to 26.2%, the same as at the end of 2020. Strong capitalization, growth of profitability and improved quality of credit institutions' assets prompted the central bank at the end of September to lift the measure banning the payment of dividends.

Business description of the Bank

Organisational chart



Business description of the Bank (continued)

Privredna banka Zagreb d.d. was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name.

During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.

Privredna banka Zagreb d.d. today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of Croatia.

Organisational Structure and Business Activities

According to data from the November of 2021, PBZ is the second bank in terms of total assets in Croatia and the fifth bank in terms of subscribed share capital. PBZ is also one of the largest Fixed Income and Foreign Exchange dealers in Croatia as well as a leading player on the domestic syndicated loan market. With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognised as the leading Arranger of equity, debt and commercial papers issues in the Republic of Croatia. The Bank is strongly focused on customer satisfaction and a high-quality customer experience. Aware of its role and influence on society, PBZ's corporate values integrated in daily operations include not only business success, but also care for people, the sustainable development of its business and the overall improvement of quality of life in the community where it operates. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.

Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo – the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group.

Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb d.d. has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as strengthening its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients.

This commitment to quality and advanced banking practices is clearly seen by the fact that Privredna banka Zagreb d.d. received a numerous international and domestic awards and acknowledgments in 2021:

- The Euromoney Awards for Excellence 2021 – as the best bank in Croatia
- Global Finance Awards 2021 – as the best bank in Croatia
- “Zlatna kuna” (The Golden Marten) Croatian Chamber of Commerce Award – the most prestigious domestic award
- Certificate for the Best Employer in 2021 according to the criteria of the ISF white standard © Employee respect
- Certificate Employer Partner assigned by the company Selectio Solutions d.o.o.
- People's Voice Award 2021 – one of the categories of the Best Employer brand Awards Adria
- Certificate Student Friend - awarded by the e-student student association

Privredna banka Zagreb d.d. currently employs some 3,379 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into two principal client-oriented business groups and logistics area.

Business description of the Bank (continued)

Retail Division

In the retail banking segment, Privredna banka Zagreb has a comparative advantage over its competitors due to the fact that it has the most extensive branch network in Croatia, consisting of 157 organizational units (branch offices and outlets) in 7 retail regions and 10 SB branches, which cover the entire territory of Croatia.

With the aim of improving the customer experience and business efficiency within the framework of achieving the business plan goals for the period 2018 - 2021, the parent bank initiated a transformation process according to a new service model in retail based on the best experiences of the Group. More and more frequent and intense changes in the market bring new challenges on a daily basis, which the Bank must recognize, monitor and actively adapt to in order to continue to provide high quality customer service in accordance with their needs and growing expectations. The new service model follows the trends of changing customer habits by introducing activities dedicated to developing customer relationships. Through the new service model, simpler activities are being migrated from branch offices to direct channels and in branch offices replaced with activities that are more complex with greater proactiveness and dedication to the client.

With regard to the Covid-19 pandemic, the Bank continued to adapt to the guidelines of the National Civil Protection Headquarters in 2021, striving to ensure business continuity in branches in the business network.

In order to maintain continuity and availability of services to clients and ensure adequate health protection measures for employees and clients in branches, all in accordance with the guidelines of the National Civil Protection Headquarters, the Bank has implemented additional measures such as social distance, defining the maximum number of clients in each branches, the obligation to wear masks in business premises, work in teams in order to reduce contacts among employees within branches.

At the end of 2020, the Sisak-Moslavina County was hit by a devastating earthquake due to which two branches suffered significant damage (Petrinja and Glina). The Petrinja branch was rehabilitated and returned to the function of working with clients, while the Glina branch continued to work in a new safer space. In order to alleviate the financial situation of clients from the area affected by the earthquake, in the first half of 2021 the Bank made a series of decisions with relief measures for clients from the Sisak-Moslavina County.

In 2021, PBZ also prepared a special offer of housing loans with a government subsidy intended for the purchase of an apartment / house or building a house, according to the Law on Subsidizing Home Loans and its Amendments (OG 65/17, 61/18 and 66/19) and confirmed its leading position in the market share in this segment of retail lending.

Our focus on the client is confirmed by "Innovation", a reward program for clients who use several product groups (up to 8 of them) and who are granted discounts on fees or are granted incentive interest rates.

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ continues to develop and improve its direct banking distribution channels. It has extended the network of ATMs that accept Maestro, Mastercard, Visa and Visa Electron as well as Visa Premium, Diners Club International, and China Union Pay cards (a total of 760 ATMs). PBZ continuously invests in the further development of the ATM network generating new revenues in cooperation with partners; Croatian and foreign companies with an independent ATM network. Together with the partners, the PBZ ATM network has up to 1,600 ATMs. The number of EFT POS's (point of sale) was 26,861 and the Bank has in network of branches also 17 self-service devices for the payment of coins.

As a leader in modern technologies, PBZ has expanded its distribution channels and products using the most advanced technology in implementing its *on-line* services. The latest digital trends are part of the clients' daily routines, and PBZ wants the clients to have such an experience when doing business with the Bank. Therefore, it has developed PBZ digital banking service, which is the concept of a new PBZ Internet and mobile banking with new functionalities with the option to personalize the app according to the needs and wishes of the clients. The new interface provides unique user experience and functionalities, regardless of which device or app the clients are using (computer, tablet or mobile phone). In the new service, the clients have a graphic representation of their assets with the option to manage them according to their own preferences.

Business description of the Bank (continued)

Retail Division (continued)

With the improvement of existing functionalities, numerous new options and functionalities are available, such as #withKEY (a mobile token integrated into the mobile banking app that provides easier access to internet application), #withCASH (cardless cash withdrawal), #withPAY (a payment concept between the service users using a mobile phone number), #withSAVE (a small daily savings concept), #withSIGN (qualified electronic signature that allows a user to sign contracts for banking and financial services without having to go to the PBZ branch office), Google Pay and Apple Wallet, app login using fingerprints or face identification, quick overview of the balance without logging into the app, the option to receive automated notifications to the mobile device on account and product changes according to the user's selection, contractual documentation and receipts of completed transactions all in one place in the application, the option to transfer funds between user accounts without authorization, transfers of small amounts to the trusted beneficiaries without authorization, defining their favorite recipients, Scan and Pay functionality – the option to pay payment slips which have a 2D bar code, cards PIN overview, CAP – capital accumulation plan etc. Privredna banka Zagreb is the largest of the three banks that were the first to implement instant payments at the national level, enabling clients to pay bills or transfer funds in less than 10 seconds 24/365.

In order to enable clients to remain protected and safe in the new pandemic situation, and to conduct their banking business as much as possible from the comfort of their home, in 2020 the Bank provided several additional benefits through online banking. We emphasize the possibility of payment from the protected income account and contracting PBZ digital banking online without the need to go to the branch with a special benefit free of charge for the first 3 months for new users. Also, through the new Remote Offer service, PBZ digital banking users can sign documentation online and conduct part of transactions without going to the branch.

These achievements have firmly established PBZ as the Croatian market leader in electronic banking, as well as the technological leader on Croatia's financial market. PBZ was one of the leading banks in Croatia to implement secure e-commerce based on 3D Secure technology (Verified by Visa and Mastercard SecureCode) and CAP/DPA technology for user authentication. PBZ has also introduced innovative service – an Internet channel for distribution of investment banking services, now brokerage services on the domestic stock exchange and as well as custody accounts. In the area of retail product development, PBZ is constantly monitoring market demands and improving its wide range of products and services accordingly.

Based on identified needs, PBZ recognized its role in the environmental protection and social responsibility, and therefore amended and extended its product offer with loans such as Energo loans, tuition fee loans and student cost of living loans, loans for retired persons, socially stimulated housing loans, state subsidy housing loans, etc. In addition to responding to market requirements, PBZ is monitoring regulatory and legislative requirements and timely adjusting its products and services to them.

Overall, in the period from 2000, PBZ established itself as the market leader in retail loans with cca 18.50 percent share in the loan market on the Group level. In the area of savings, the PBZ Group has significantly increased its deposits, with cca 22.50 percent of all retail deposits in Croatia.

From the beginning of 2021, PBZ's Retail Division comprise the following departments: *Multichannel Department, CRM Office, Network Management Department, Price Management Office, Mass Client Department, Affluent Client Department* and *Private Client Department*.

According to decision of micro organisation of the Bank since 12th of February 2021 next organisational parts are established under the Retail Division: *SB Department* (an existing department that transitions from abolished Small Business & SME Division), *Service Centre* (new office arising from existing network support activities organized within the Small Business & SME Division as a CRM & Network Support Office), *Commercial Planning and Monitoring Office* and organization of other support activities for small businesses within other appropriate functions of the Retail Division (CRM Office, Multichannel Department).

Multichannel Department

Direct distribution channels function (Multichannel Department) is responsible for the development and maintenance of *on-line* banking channels (Internet and mobile distribution channels), ATMs and other self-service terminals, as well as contact center (subfunction Customer Contacts – Retail). Development activities include participation in research and development of innovative multichannel solutions with aim of improving customer experience and achieving the strategic goals of the Bank, supporting the integration of CRM solutions in direct distribution channels, development of own and partner network of ATMs, cooperation on marketing and promotional projects, customer training and education as well as improving sales of *on-line* services in PBZ branch network.

Business description of the Bank (continued)

Retail Division (continued)

CRM Office

Customer Relationship Management Office (CRM Office) operations are analysis and development of client relationships models as well as supervision and implementation of measurements of the key indicators related to distribution network, production and services effectiveness with focus on retail and SB customers for the Bank and other PBZ Group members. Key tasks include CRM activities in area of creating, monitoring and analysis of campaigns, conducting various analyses (of clients, products, services transactions and distribution network) and direct marketing, the development of support for better customer relationship management and key success indicators calculation in managing relations between the client and the Bank as well as and business, segment, regional, branch, and employee business reports. Participating and preparing data in external surveys (Benchmark) and defining business improvement initiatives based on such surveys.

Network Management Department

The Network Management Department is responsible for organization, development, coordination, support and monitoring of the Retail Business Network, the fundamental distribution channel with Bank's retail clients, contact channels with retail clients and subcontractor sales network.

Due to the new circumstances caused by the COVID-19 pandemic, the organization of the branch network was particularly challenging, given the large number of employees covered by self-isolation measures.

The most important responsibilities of the Department include managing retail regions and contact channels for retail clients, managing subcontractor sales, capital investments and investments into business network, HR management of business network, participating in specifying and dividing budget amounts and remodeling the setting of targets, measuring effects and awards in the business network and conducting development and education of HR, defining and continuously advancing modality, process, procedures and rules, and prescribing instructions for advancing modalities, processes, procedures and rules for prescribing instructions regarding regular planning, as well as planning and introducing new technologies in business, and development and supporting.

Price Management Office

The activities of Price Management Office encompass qualitative and quantitative analysis, as well as analysis of financial impacts related to pricing, measurement of key indicators for price realization and monitoring of market dynamics. Responsibilities of the Office include participation in price definition in cooperation with business segments, assessment of effectiveness of pricing activities and recommendation of corrective actions in case of need, as well as definition of business requirements and supervision over implementation and delivery of pricing tools.

Mass Client Department

The "Mass" Client Department is responsible for defining and implementing business and commercial strategies, products and services as well as value propositions and pricing for the Mass/Upper Mass segment. Its task is also designing and updating the "customer journey" for the Mass/Upper Mass segment, supporting and providing commercial coordination to the Mass/Upper Mass-related sales force in the Branch Network, supporting the Branch Network and the sales channels in adopting the defined strategies in order to reach the sales target of the Mass segment. Responsibilities of the Mass Client Department includes the development, management and updating of products and services related to Current Accounts and Transaction Products, Mortgages, Personal Loans and Non-life insurances for Retail clients of all segments. In co-operation with PBZ Card it manage and updates products and services related to Cards business and is responsible for monitoring quality of externalization services provided by PBZ Card and Nets.

Affluent Client Department

The "Affluent" Client Department is responsible for defining and implementing business and commercial strategies, products and services as well as value propositions and pricing for Affluent segment. Its task is also designing and updating the "customer journey" for the Affluent segment, supporting and providing commercial coordination to the Affluent-related sales force in the Branch Network and providing sales coordination for Affluent segment, supporting the Branch Network and the sales channels in adopting the defined strategies in order to reach the sales target of the Affluent segment. Responsibilities the Affluent Client Department include the development, management and updating of products and services related to time deposits for individuals in all segments, products and services related to investments and life insurance in cooperation with Eurizon Capital, Banca IMI ISP Division Insurance and local partners, and the management and updating the investment advisory service.

Business description of the Bank (continued)

Retail Division (continued)

Private Client Department

The "Private" Client Department is responsible for defining and implementing business and commercial strategies products and services as well as value propositions and pricing for Private segment. Its task is also designing and updating the "customer journey", managing commercial coordination of the Private segment, and also managing and updating investment advisory services.

Commercial Planning and Monitoring Office

Commercial Planning and Monitoring office are responsible for monitor budget achievement of Retail and Small business Division by Segments, and to timely provide detailed reports related to the fulfilment of the assigned targets to Network Management Department and to Segment Departments.

The office assists the different functions of the Retail and Small business Division in the set up and the planning of the necessary action plans, in the event of significant deviations from the commercial targets. It is responsible for monitoring sales campaigns trends and their retention ratio, in cooperation with Multichannel & CRM.

The office provides qualitative and quantitative analysis on the performances of the Retail and SB Network and of the Digital Channels, through the development of commercial productivity analysis models, and to produce periodic and ad-hoc reports to Segment Departments.

Service Centre

Service Centre is responsible for support to the SB business network in the area of resolving inquiries related to the credit process and payment products and services.

The office is support to the SB business network in the area of central opening and account closing, as well as processing of non-standard contractual documentation in the part of the credit process for SB clients.

Service Centre has the aim to providing information and support for the use of the Bank's products and services for business clients through the contact centre. They execute proactive sales activities through outgoing calls, which includes the fulfilment of the contact strategy and onboarding calls to new clients of the Bank.

Additionally, the office is responsible for resolving business client complaints in cooperation with the SB business network and the Customer Satisfaction Office.

Development and management of business relationships with SB clients remotely, without physical contact with clients:

- Providing information to clients and supporting the use of the Bank's products and services.
- Conducting marketing campaigns and presentations of the Bank's products and services for the purpose of sales.

SB Department

SB Department is primarily responsible for the organization, portfolio management and sales monitoring, sales coordination and support, service model improvement, processes and products.

SB Department has the aim to set up, maintain, manage and develop relationships with SB clients in order to strengthen the Bank's presence in that segment in line with the strategy and to achieve the segment's sales targets and a high level of customer satisfaction.

Additionally, SB Department has the aim to identify customer needs, ensure coordination of sales for this segment and provide support to the SB network and sales channels in order to achieve customer satisfaction.

Within the Retail Division is established SB Network organized through SB Banking Centres. SB network is created by separating micro enterprises and craftsmen (SB segment) from the existing SME regions.

Small Business activities in 2021 were largely under the influence of the covid pandemic. Business continuity is ensured by applying a smart working mode. Throughout 2021. all business centers (10) and all Sinergo desks (48) worked the whole time, only Sinergo desk Sisak was relocated to the Sisak branch where it still works due to the earthquake and damage of the building where it was located previously.

Business description of the Bank (continued)

Retail Division (continued)

SB Department (continued)

The service model of clients has been fully implemented in a way that the arrival of clients is planned in advance by arranging a date for a meeting with the RM. The same contributed to a better organization of sales activities by the RM. In 2021 based on regulatory requirements, priority was given to updating client status data (KYC questionnaires, deep client analysis) and checking potentially suspicious and controversial transactions (Norkom alerts). At the same time the process of migrating clients to a new digital banking that offers Internet and mobile banking with new functionalities (#with KEY, #with SIGN) was launched.

SB department recognized the need to renovate earthquake-damaged buildings, which resulted in an update of the Model for crediting residential building owners for the renovation of common areas and appliances in residential housing, which approved the purpose of reconstruction of buildings after the earthquake, which placed the Bank as a market leader in this segment.

During 2021 SB Department started the process of preparation for the conversion of the HRK into the euro in order to adjust the Bank system, and in the same time we started activities for presupply of SB clients with euro cash for the first days of the January in 2023.

Corporate Division

Privredna banka Zagreb d.d. is one of the leading Croatian banks in the field of corporate banking. Taking into account a wide range of products and services offered to its corporate clients both locally and internationally, it is difficult to find a major company in Croatia today that does not bank with Privredna banka Zagreb d.d. Supported by powerful electronic distribution channels, our network of well-organized branches is the key driving force in serving our clients efficiently. We strive to create additional value by providing integrated financial solutions designed to satisfy the individual requirements of our clients.

Privredna banka Zagreb d.d. has developed a modern platform for supporting classic cash as well as other transactions of corporate clients within the Bank's network. A wide network of correspondent banks, and its SEPA reachability, make it possible for the Bank to offer its clients fast and affordable services in the area of international payments.

Also, Privredna banka Zagreb d.d. has significantly improved the process of handling domestic payments. The Bank directly participates in the Croatian RTGS system (HSVP) and in the national clearing system (NKS) and thus has the ability to process any payment through the most appropriate channel. The Internet banking service for corporate clients – PBZ COM@NET, after being upgraded, is available for both domestic and international payments. In terms of investment banking, Privredna banka Zagreb d.d. is a dominant participant in the Croatian market. It has originated many contemporary products and has initiated and largely contributed to the development of the financial market in the country. Because of its active role in the primary and secondary capital market, PBZ has been recognized as a market leader. We are determined to keep the position of the best financial institution in the region. Such recognition has been given by our clients because of our ability to deliver the best service in everything we do.

From the beginning of 2021, the Corporate & SME Division consists of the following organizational units: Domestic Corporate & Institutional Client Department, Multinational Client Department, Financial Institutions Department and Corporate Banking Products Department. From Small Business & SME Division which operated from the beginning of 2021, in February the following departments joined them: CRM & Network Support Office and SME Department.

Business description of the Bank (continued)

Corporate Division (continued)

Domestic Corporate & Institutional Client Department

The Domestic Corporate and Institutional Client Department is responsible for business relationships with the largest domestic corporate clients, central government, public institutions, public utility companies and related companies and institutions. The Department is also responsible for handling and monitoring the entire business relationship with major private enterprises, whose relationship with the Bank is exceptionally complex and structured, which implies the multiple interweaving of the products and services they use. Business activities of this Department include presentation and sales of Bank products to existing and potential clients, preparing and organizing specific presentations for the sale of products and services of the Bank, advising clients on all forms of financing and creation of the best possible solution for the respective entity, submitting offers to clients, providing incentives for product development and coordination between all organizational units of the Bank and the concerned client. In cooperation with other organizational units, the Department offers all types of banking products and services such as opening of business accounts, contracting Internet banking, various models of deposit transactions, granting all types and forms of short-term and long-term financing, including loans from external sources, club loans and syndicated loans, purchase of receivables, project financing, factoring, letters of guarantees, letters of credit, cash handling services (organization, collection and transportation of cash, cash pooling), as well as services in card operations, leasing, investments in funds, multi-purpose facilities, providing financial support to export-oriented businesses and other innovative solutions adjusted to the requirements of each single client. In coordination with other units of the Bank, we participate in cross-selling of all the PBZ Group products.

The Domestic Corporate and Institutional Client Department also provides agency services to clients, by performing transactions on behalf and for the account of the particular principal, as well as by carrying out activities in its own name and for the account of the principal – all in accordance with the mandate of an agent, as agreed in a specific case. In every segment of its business activities, operations and services, the Department seeks to promote the highest banking standards, first and foremost by fostering a highly professional as well as flexible approach both to its present and potential clients.

Multinational Client Department

The Multinational Client Department is responsible for establishing and managing business relationships with companies in foreign ownership, foreign legal entities – non-residents, and it provides clients with a full range of banking services by offering both standardized and customized products in cooperation with other organizational units of the Bank as well as other members of the PBZ Group, and also in coordination with the Intesa Sanpaolo Group.

Clients receive an individual approach, which considers their specific needs, and are provided with various banking and advisory services as well as support to all aspects of their business activities. Clients have at their disposal the following banking products and services: opening of transaction accounts/sub-accounts, centralized account management, contracting of internet banking services for businesses via COM@NET and services of INBIZ internet banking Intesa Sanpaolo for Multinational clients, Global and National Cash Pooling, Global Cash Management, deposit transactions and liquidity surplus management, cash handling services (organization, collection and transportation of cash), service of using smart safes in cooperation with external partners, approval of all types of loans from own funds and/or borrowed assets/other resources, including sources of development banks and syndicated loans, purchase of receivables, B/E discounting, issuing of guarantees and letters of credit, advisory services related to all aspects of financing, card operations, leasing, retail products designed for employees of our corporate clients, and many other products and services.

The Organisational unit also assists foreign investors in the process of establishing a company or a branch office in Croatia, provides advisory services and general information about the terms and requirements for conducting business in Croatia and about effective regulations, as well as useful contacts with all the other relevant institutions in RH of key importance for the realisation of foreign investors' planned business activities in RH. The Department also renders information services to domestic clients about the terms and conditions for the opening of non-resident accounts in countries where the Intesa Sanpaolo Group is present and where the Bank's clients plan to operate and enables contacts and connections with potential business partners – clients of the Intesa Sanpaolo Group member banks in the country of planned business operation.

Business description of the Bank (continued)

Corporate Division (continued)

Financial Institutions Department

The Financial Institutions Department, as an important organizational unit within the Bank, is responsible for establishing, maintaining, promoting and managing a complex and extensive network of business relations between the Bank and more than 1000 domestic and foreign banks and other financial institutions (including investment and pension funds, payment services providers, etc.) in both emerging and mature markets. The Department is also responsible for participation in cross-selling of a wide range of various services and products offered by the Bank and PBZ Group, as well as for providing professional advice and offering individual, single source solutions, tailored to suit specific requirements of our existing as well as prospective clients.

New business opportunities are created on the basis of mutual trust, continuity of relationships and personal commitment of our relationship managers, who provide support to our clients as reliable partners, supplying them with full information on the entire product range of the PBZ Group. Such attitude represents a sound foundation for consistent and successful maintenance of both the existing relations as well as creation of new business opportunities and establishment of mutually satisfying cooperation. The Department is able to offer tailor-made financing solutions to all the Bank's clients, including trade finance, loans and specialized arrangements with financial institutions (both domestic and international), buyer's credits and forfaiting for the promotion of Croatian export, etc. PBZ has profiled itself as the leading commercial bank in Croatia in providing export financing through Buyer's Credits. In order to support payments and the documentary business of the Bank's clients, the Bank has concluded a number of special arrangements and contracts, that together with the use of innovative possibilities in cooperation with renowned foreign financial institutions, contribute to easier operations of its clients abroad. It should be emphasized that PBZ is the first Croatian bank that has fully implemented Global Cash Management and one of the first offering SEPA payments to its clients.

By continuously investing in new channels and methods of effecting international payments, we are able to provide our clients with a highly efficient, time saving and cost-effective execution of their payments around the world. In close cooperation with its foreign bank partners, PBZ has achieved a Straight Through Processing (STP) rate of 99.9 percent, thus continuously, year after year, receiving STP excellence awards given by eminent foreign banks (Deutsche Bank AG, Citibank NA, JP Morgan Chase NA and The Bank of New York Mellon).

Through our well-developed correspondent network, Bank's clients have direct access to all world markets, which is crucial for their export and import activities. Thanks to the commitment of an experienced team of trade finance specialists who act in synergy with the team of relationship managers within the Department, the Bank is able to provide strong professional support to and facilitate financing of export-oriented customers, as well as imports of equipment, construction works, and other specific projects. In response to the needs of the market, the Bank has started to effect inland documentary payments, being the first bank in Croatia that offers such service to its clients.

In order to provide all Bank's clients with the best possible yet diverse offer, the EU Desk team has been set up within the Financial Institutions Department which actively provides clients with information and advisory services regarding EU financial instruments, programmes and EU Tenders. The Bank participates in a number of EU financial instruments, which transform EU funds into financial products such as loans, guarantees, and other risk-bearing mechanisms. The Bank participates in granting of financial instruments such as 'ESIF Growth and Expansion Loans', 'ESIF Loans for Rural Development' - long-term investment loans for SME projects in the processing industry, tourism, creative industry and knowledge-based services, and in agriculture. Also, the Bank participates in several guarantee schemes. Thus, 'ESIF Capped Portfolio Guarantee', 'COSME Capped Portfolio Guarantee' are financial instruments structured to support micro and medium sized enterprises. INNOVFIN is a financial instrument that supports projects of innovative SMEs and Small Mid-caps (with less than 499 employees). ERASMUS provides financial support to students from Croatia, studying for their Master's degrees in one of the 33 Erasmus+ programme countries, and Privredna banka Zagreb d.d. is the only bank in Croatia that provides such support to Croatian students.

Further, acting in close cooperation with supranationals such as the European Investment Bank, European Bank for Reconstruction and Development, and the Croatian Bank for Reconstruction and Development (HBOR), PBZ provides funds for on-lending to its clients, i.e. for financing of projects aimed at improvement of environmental, health and safety standards, improvement of product quality and energy efficiency in line with EU requirements, and similar projects.

The facts presented above prove our dedication to the highest professional standards in dealings with supranational institutions and the European Union.

Business description of the Bank (continued)

Corporate Division (continued)

Financial Institutions Department (continued)

The Department is also responsible for ensuring the long-term funding of the entire PBZ Group, i.e. the Bank and its subsidiaries.

In an effort to alleviate negative effects of the COVID 19 pandemic on the Croatian economy and help entrepreneurs to preserve their financial stability and maintain liquidity, Privredna banka Zagreb d.d. has enabled them to arrange moratoria on or reschedule already approved loans, as well as to obtain new liquidity loans.

For that purpose, the Bank has concluded a number of business cooperation agreements with both international and national development banks (European Investment Bank, European Investment Fund, Croatian Bank for Reconstruction and Development, Croatian Agency for SMEs, Innovation and Investments), which make it possible for the Bank and its clients to utilize the aid measures designed by the European Commission under the “Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak”.

Corporate Banking Products Department

Privredna banka Zagreb has always been focused on the clients and the client needs, and for that purpose, at the beginning of 2016, we carried out a reorganisation with the aim of making it possible for large and medium-size companies to be offered products and services from one central spot, where we can provide a comprehensive review of business operations and the needs of a particular client in today's dynamic and demanding business environment.

The Corporate Banking Products Department comprises the following functions: activities of the former Investment Banking Division – i.e. activities of the Capital Market Office, Custody Office and the Depositary Office, Brokerage Office, M&A Advisory Office, Structured Finance Office (which includes Syndicated Finance and Financing of Real Estate and Infrastructure Projects), Investment Analysis Office, as well as the Factoring Office, Transaction Banking Office and PBZ Leasing.

Factoring

PBZ factoring, as one of the corporate banking products, refers to the purchase of short-term receivables of good quality, that have arisen as a result of the delivery of goods and the provision of services that took place between suppliers and buyers, on the basis of documents that prove the existence of receivables. By selling the receivables, the user of the factoring service can reduce the time needed for collection of its short-term receivables, originally subject to deferred payment, and in this way the client can significantly improve its liquidity, without having to take a loan.

PBZ Factoring Office engages in purchases of receivables created in the course of domestic and international trade of goods and services and is able to offer the following factoring services: domestic factoring, bills of exchange discounting, export factoring and import factoring.

Transaction banking

PBZ has recently paid a lot of attention to developing a range of transaction banking products intended for corporate clients, thus satisfying the demands of all client segments - from the smallest business entities to big multinational companies, which now have at their disposal a large variety of products, from those simplest ones, related to opening and maintaining transaction accounts, to more complex products, which enable large clients centralised management and the optimum use of funds.

The transaction banking products and services, as well as all other groups of products, are available to PBZ clients via a number of different electronic channels that range from a sophisticated system of Internet banking to the solutions for direct communication with the client systems. At the same time, PBZ devotes utmost attention to the development of the security systems in order to ensure maximum and full protection of business operations of its clients. Through cooperation with other banks of the Intesa Sanpaolo Group, PBZ has become a major player in the international market precisely because of the sophisticated and highly automated services it is able to offer to the most demanding groups of clients.

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Investment analysis

Investment analysis serves as an indispensable source of information for the performance of investment banking operations and is equally valuable to other internal users, because - through preparation of industry research reports and corporate profiles/analyses - the relevant information is supplied regarding the trends in a specific industry or about the performance of a specific company. The tasks of investment analysis are carried out by the Investment Analysis Office within the Department, which is unique in terms of the scope of analytical activities and the type of analyses it can conduct/offer, and it should be mentioned that other banks, our competitors, have not developed investment analysis as a product i.e. a (highly sophisticated) service in this way, as is the case at PBZ. Apart from establishing and maintaining contact with relevant agencies and experts from specific industries and companies, the task of the Investment Analysis Office is also to set up and develop relevant databases.

Capital markets

PBZ has earned a reputation in the capital market as a leader in providing innovative financing solutions, which our capital market team has successfully designed and delivered to the state, to local government units, and also to a large number of corporate clients. Over the past period, a total of 50 clients used PBZ Capital Markets services in a total of 254 transactions.

We are number one in terms of the number of public offerings of shares (IPOs, SPOs) that have been successfully arranged for our clients from different industries for the purpose of capital increase. PBZ is also a major player in the domestic debt market; as such, we have participated in the majority of domestic sovereign, corporate and municipal bond issues and commercial paper issues, thus handling the major portion of the total amount of debt issued in the domestic capital market. Together with parent bank Intesa Sanpaolo, we have participated on international markets in Eurobond issues for Republic of Croatia and Croatian corporates.

Brokerage services

In addition to carrying out purchases and sales of securities on domestic and foreign stock exchanges, the Bank's brokerage services consist of providing detailed information on trading activities, as well as supply and demand, readily available through electronic trading systems, and prompt reporting of securities transactions. Due to the quality of its brokerage service, the Bank has been recognised in the domestic market as one of the leaders in this area, especially in electronic trading. The key driver of our brokerage business is the internet platform, PBZ Investor, completely developed in-house, primarily for retail and institutional investors. At the end of 2020 functionality of buying and selling stocks has been implemented through Digical application.

M&A Advisory Office

Our M&A Advisory Office provides advisory services related to mergers and acquisitions, corporate and financial restructuring and divestments, employee stock ownership programs, MBOs, LBOs and other transaction-based projects. We can provide support and assistance to companies that wish to enhance their shareholder value. We have a strong network base and strong presence in various industries, an in-depth understanding of the dynamics of the markets in which our clients operate and are quite familiar with intricacies of deal structuring and negotiations.

We have represented clients in a number of different industries, including tourism, food processing, confectionery industry, transport and logistics, IT, retail trade, pharmaceutical industry, construction, oil and gas industry, and others.

Structured Finance

As the ultimate leader in the domestic financial market in providing agency services, PBZ's Structured Finance Office provides syndicated and club financing facilities and project finance solutions to corporate and private investors, commercial banks, local government units and public entities.

Our team's dedication, breadth of experience, broad market knowledge and extensive business network of partners, both local and international, enable even the most complex transactions to be efficiently structured to suit clients' specific financing requirements. Privredna banka Zagreb has arranged syndicated loans for large transactions, both project finance and corporate deals, as well as bilateral loans in project financing, for clients from various industries, including infrastructure, healthcare, oil and gas, tourism, renewable energy, commercial real estate development (shopping centres), telecommunications, food processing, shipping, residential real estate and others. In addition to having a significant role in primary syndication, the Bank actively participates also in the secondary market (domestic as well as international).

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Custody services and depositary services

The Bank takes great pride in providing top quality custody services to private and institutional clients from all over the world and has established itself as a highly reliable partner that delivers efficient local custody services, due to its in-depth knowledge of local legislation and market practices. At the same time, by establishing and continuously developing its own custodian network, the Bank is able to offer its domestic institutional and private clients easy access to local and foreign markets.

Also, by being entrusted with the role of a depositary for top Croatian pension and investment funds, we take all necessary steps to ensure that investors' assets are protected, managed and valued in accordance with applicable regulatory requirements and recognized accounting standards. Our know-how and experience, combined with the ability to access local and regional markets, provide our clients with the assurance that they will receive top-notch support required for the successful accomplishment of their business goals.

SME Department

After 14 years during which the SME Department was developing its business activities alongside the SB Department, within the same larger unit, the Bank made a strategic decision to redefine organisational processes regarding SME and SB Departments. Thus, the SME Department was reallocated to the Corporate Division (renamed Corporate & SME Division), while the SB Department, along with other support offices, was reallocated to the Retail Division.

The SME Department remains focused on the development of new products and the improvement of existing ones, implementation of innovative business applications and models, process optimisation and organisation, thus enabling more efficient services for over 4,000 clients – joint stock companies, limited liability companies, craft businesses and other business entities.

Clients can use the largest network of Branch Offices, ATMs (Cash-In/Cash-Out), day-night vaults and EFT POS terminals.

PBZ remains a market leader in banking technology, constantly working on Internet and mobile banking improvement and safety, which is reflected in the provision of related services such as digital banking for business entities, PBZCOM@NET, mPBZ, e-plaće (e-salaries), etc.

The major indicator of the quality of PBZ services is the increasing number of users, as well as the more frequent use of direct distribution channels. The use of VISA Electron debit cards linked to transaction accounts, VISA Premium business credit cards and the largest EFT POS terminals network is available through the support of PBZ CARD as a PBZ Group member.

In cooperation with national and EU partners (HBOR, HAMAG, EIB, EBRD and EIF), the SME Department provides small and medium businesses with easier access to finance based on developed business models, including specific loan programs such as development loans for financing production, export, as well as other various programs or guarantee schemes.

The SME Department successfully responded to the COVID 19 pandemic and offered its clients online moratorium applications, so during the lockdown no physical contact was needed if the client wanted to use a loan moratorium option, thus providing additional health security to clients and employees alike.

The Bank also participated in most of national COVID 19 recovery programs as well as in all programs offered directly by the EU, with particular emphasis on EGF (European Guarantee Fund) guarantee schemes that provide easier access to financing for all clients, under more favourable pricing, and with lower or no additional collateral requirements.

The SME Department is primarily responsible for network management, business development, portfolio management and sales monitoring, coordination and sales support, as well as improvement of the service model, relevant processes and products.

The sales process within the SME Department is organised into 3 regions: Zagreb, Continental Croatia and Adriatic Croatia, with 10 regional Business Centres covering the whole country, and more than 70 employees ready to assist SME clients. The activities and responsibilities of regions and centres include the sale of Bank's products and services to SME clients (loans, deposits, guarantees, letters of credit, factoring, leasing, payment transactions, credit cards and other services), providing financial advices to clients and coordination of activities with other organisational parts of the Bank and PBZ Group members.

Business description of the Bank (continued)

Corporate Division (continued)

SME Department (continued)

CRM & Network Support Office

The CRM and Network Support Office is responsible for sales support and implementation of CRM campaigns, internal reporting and data quality management related to Corporate and SME clients, product and services development and participation in projects related to legal entities and regulatory framework implementation, credit analysis activities related to corporate clients, support in the implementation of AML controls and reporting for Corporate and SME clients.

Logistics areas

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.

The Accounting Department, Planning & Control Department, Treasury & ALM Department, Administrative & Financial Governance Office, Procurement Office, Research Office and Data Office led by the Chief Financial Officer (CFO), provide skilful and in-depth support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business areas.

Listed below are the basic roles the business functions (mission):

- mission of the **Accounting Department** is preparation the Bank's Financial Statements in accordance with the required standards, management, monitoring and taking into consideration all applicable tax laws and providing consultancy to the all Bank's Structures on these matters, management of all accounting activities as well as preparation and submission of Regulatory reports to the National Bank and to the other Regulatory Authorities;
- mission of the **Planning & Control Department** is to assist the Top Management in assessing the overall and segment specific performance as well as the strategic and market position of the Bank and the Group. The Planning and Control Department provides the business divisions/departments with financial and business information (by segment, product, channel, geographical area and organizational structure) and to supports them in analyzing and monitoring the relevant trends. The Department manages the all budget process (preparation of the strategic plan, budget and forecast for Bank and the Group), ensures the cost controlling of the Bank and the Group and identifies the strategies for capital allocation for optimizing the capital usage and maximizing the value of the Bank;
- the **Treasury & ALM Department** manages the liquidity of the Bank/PBZ Group in all currencies, the interest rate risk and the FX risks of the Bank/PBZ Group and the Bank/Group's securities portfolios. Furthermore, the Treasury and ALM Department carries out all the necessary (cash and derivative) transactions in the monetary and financial markets and with the Central Bank, in order to manage the above mentioned activities within the limits assigned. The Treasury and ALM Department ensures the fulfilment of all relevant regulatory constraints and provides transaction execution services in the relevant financial markets for customers and sales functions;
- the **Administrative & Financial Governance Office** assists the Bank's Reporting Officer / CFO in the set-up, implementation and application of the Administrative and Financial Governance Model in line with the Group standards and regulations, reviews and assesses adequacy and effectiveness of the administrative and accounting procedures, as well as of the internal controls system on financial information through identification and evaluation of those processes that affect financial reporting and the relevant risks and controls. Furthermore, it reports to the Parent Company about the execution and the outcomes of the testing program, identified weaknesses and implementation of the related remedial actions;
- main duty and responsibility of the **Procurement Office** is management of the procurement process of all necessary goods and services for the Bank and its subsidiaries according to the Group Procurement Rules ensuring the regularity of the entire procurement process. The Procurement Office provides support to all the organizational units of the Bank and PBZ Group members in all the phases of the procurement process;

the **Research Office** creates and maintains a database of all the relevant macroeconomic and financial indicators and of all the major microeconomic variables for the countries in which PBZ Group operates, produces regular reports regarding major macroeconomic and financial market developments (current and expected), provides ad-hoc analyses and research in the microeconomic areas of industry, trade and banking, and provides the inputs and forecasts regarding the covered countries, necessary for the annual budget and long term planning of the local Bank, in coherence with the Group guidelines;

Business description of the Bank (continued)

Logistics areas (continued)

- main duties and responsibilities of the **Data Office** are to set up and maintain a proper Data Governance framework and the development of the data governance culture within the Bank. The Data Office oversees the content and the coherence of the data feeding for the Parent Company, ensures the effectiveness of the data quality controls and oversees the process of managerial reporting in the area of the corporate data management.

ICT Department, Back Office Department, Payments Department and Logistic Office represent a key business functions as part of the organization that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.

- mission of the **ICT Department** is to identify the ICT needs of the Bank and to define strategies, solutions and initiatives regarding architectures, technologies, standards and rules. ICT Department designs, implements and manages the applications, the central and distributed technological infrastructures coherently with the defined budget and objectives. Furthermore, the ICT Department assures the implementation and management of the ICT security measures and oversees the related incidents management;

- the **Back Office Department** performs back office activities related to all banking products and services, continuously monitors their service level and performs book-keeping records for the Bank. The Department is proposing and participating in development of the relevant ICT solutions;

- mission of the **Payments Department** is to perform all the back office activities related to the outgoing and incoming payments, national, cross border and international in HRK and other currencies, performs the cash administration and handling activities and monitors processes related to SWIFT, RTGS and ACH, SCT, SDD, CSM. The Payments Department supports development of new products and services and implementation of regulatory requirements related to payments and proposes the evolution of the relevant ICT solutions;

- mission of the **Logistic Office** is to define the strategies and to manage the real estate portfolio of both Head Office and network structures and assures the effective and efficient maintenance of all Bank's physical assets then to perform activities related to the general services and also to ensure environmental protection in respect of local and the Group requirements and to oversee organization's environmental performance, developing, implementing and monitoring environmental strategies that promote sustainable development.

Chief Risk Officer (CRO) area is a crucial part of our commitment to providing consistent, high-quality returns for our shareholders. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. Role of the Risk Management and Control Division is to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks that Bank face and to limit the scope of materially adverse implications to shareholder returns. Within this area are the following structures: Risk Management Department, Internal Validation Office, Proactive Credit Management Office, Credit Policy & Rating Desk Office, Underwriting Department, Recovery Department and Credit Portfolio Analysis and Administration Department.

- **Risk Management Department** is responsible for developing and prescribing elements of overall risk management system for the Bank and PBZ Group i.e. for defining the framework for risk management which includes strategy, models, policies, rules, procedures and resources for identifying risks, quantifying / assessment of risk, mastering of risk management and risk monitoring, including determining the risk appetite and risk profile. Risk Management identify, evaluate, manage, monitor and report on all the typologies of risks to which the PBZ Group is exposed to or could be exposed to through its activities as well as monitor the quality of the credit portfolio;

- mission of the **Internal Validation Office** is to validate, for the Bank and PBZ subsidiaries, the internal models already operative or under development with regard to all risk profiles covered by Pillars I and II of the Basel Accord and to manage the internal validation process at the Group-level in line with the Parent company guidelines and in cooperation with the Regulatory Authority, then to verify performance and correct functioning of internal systems, including back testing analyses and benchmarking and periodically issue recommendations to operational functions in relation to performance, functioning and use of the internal systems;

- **Proactive Credit Management Office** contributes to the implementation of an early warning system based on borrower's monitoring so to early/timely identify signals of customer's financial/commercial difficulties, design and activate the necessary measures/action plan for identified clients. Furthermore, this function analyses trends of specific credit indicators aiming at identifying retail products/client sub-portfolios showing increase of risk and in collaboration with the relevant functions defines proper corrective actions;

Business description of the Bank (continued)

Logistics areas (continued)

- the role of the **Credit Policy and Rating Desk Office** is to prepare and review, in co-operation with the relevant local and Parent Company functions (where applicable), the local credit framework (credit policies and other credit regulations) in compliance with both local and Parent Company requirements; evaluates rating override proposals and/or assigns ratings to counterparties / transactions requiring specialized evaluations, in accordance with the regulations in place and collaborates with the competent Bank and/or Group structures for initiatives aimed at improving the technical support and overall credit processes (analysis, granting, administration, etc.);
- mission of the **Underwriting Department** is to ensure the effectiveness and efficiency of the credit granting processes in relation to performing counterparties, with the purpose of ensuring adequate credit quality, risk mitigation, operational ease and smooth decision making;
- the **Recovery Department** identifies and promotes the best strategy in order to maximize the recovery or minimize the losses deriving from the credit activity; provides support relevant decision-making bodies in the timely identification of the non-performing clients and proactively manages the non-performing clients (Doubtful and Unlikely to Pay);
- mission of the **Credit Portfolio Analysis and Administration Department** is control of loan/credit documentation before loan utilization in order to reduce the operational risk, utilization of loan, care about integrity and completeness of loan/credit files in accordance with internal rules, policies and regulatory provisions, operative management of the loan/credit files and collaterals, ensuring a comprehensive view of the credit portfolios and coordinating all activities related to the 1st level credit controls.

The Internal Audit Department, General Secretariat Office, Human Resources and Organization Department, Legal Department, Compliance Department, AML Office, PR & Marketing Communication Department, Customer Satisfaction & Complaints Office and Cybersecurity & BCM Department are integral elements of the overall logistics and support of the business groups and the management.

- main duties and responsibilities of the **Internal Audit Department** are to ensure a constant and independent monitoring on the regular way of conducting the Bank's activities and on the Bank's processes in order to prevent or highlight anomalous or risky behaviours or situations, evaluating the functioning of the Internal Control System and its suitability to guarantee the efficiency and effectiveness of company's processes, the safeguard of assets and the prevention from losses, the reliability and integrity of accounting information, the compliance of the performed transactions with the policies established by the governance bodies as well as with the internal and external regulations. The Internal Audit Department provides advisory to the Bank's functions and units, also by means of participating to projects in order to create added value and to improve the effectiveness of control processes, risk management and governance activities, supports the company's governance and ensures the Top Management, the Internal Bodies as well as the Regulators (i.e. Central Banks) with a prompt and systematic information flow on the Internal Control System status and on the findings of the activities carried out. The Internal Audit Department ensures the monitoring on the Internal Control System of Subsidiaries through audits or by governance activities to be executed towards relevant internal auditing functions;
- the **General Secretariat Office** provides comprehensive support to facilitate the execution of Bank's Bodies meetings, as well as Internal Committees, and to manage the relationship with the Parent Group, the supervisory authorities and other regulators with reference to Bank corporate governance and legal status matters. Furthermore, the Office provides legal support to the relevant structures of the Bank in the field of corporate governance and legal status matters at the level of the Bank, which includes interpretation and application of the Companies Act, the Credit Institutions Act, and other regulations in the sphere of status law/corporate governance;
- mission of the **HR & Organization Department** is to govern the planning, development and management of human resources by guaranteeing the recruitment, remuneration, staff mobility and training of the human resources as well as the assignment of responsibilities, and by paying attention to the enhancement of expertise, skills development, merit recognition and internal satisfaction levels. It manages internal communication initiatives aiming at facilitating development of the corporate values and culture and to plan, design and manage instruments that enable the integration of social and environmental responsibility and sustainability within Bank's activities. Furthermore, it supports the development of the Bank by leveraging all organizational assets (such as models, sizing tools, processes and rules), as well as by providing support to the Bank in project management and by coordination of the demand management of IT services

Business description of the Bank (continued)

Logistics areas (continued)

- mission of the **Legal Department** is to provide legal assistance to all organizational units of the Bank aiming at assuring a proper interpretation and application of laws and regulations and to provide the representation and defense of the Bank's interest in legal disputes and other legal proceedings;
- the **Compliance Department** guarantees effective and efficient governance of the compliance risks and associated controls according to the provisions of local Authorities and the Parent Company Guidelines, ensures constantly monitoring that the Bank and its employees are compliant with the requirements of General Data Protection Regulation (GDPR), also providing advice to the Group's corporate functions for data protection impact assessments, where requested by the data controller / data processor and ensures support and communication with the regulatory authorities (primarily the ECB – JST and the CNB) and coordinates activities in the Bank / Group related to specific and ad hoc requests / queries, the preparation of which involves the participation and engagement of several different business areas of the Bank / Group members and which fall outside the scope of regular competence of individual business functions;
- mission of the **Anti-Money Laundering (AML) Office** is to ensure and provide the management of anti-money laundering, terrorism financing and embargoes in the Bank according to indications of Parent Company Guidelines and Local Authorities;
- mission of the **PR & Marketing Communication Department** is to manage and coordinate the communication activities addressed to external audience with the purpose of providing them with economic, financial, institutional and regulatory information and developing and enhancing a positive corporate image and reputation of the Bank itself and PBZ Group in the whole as well as to plan and to implement promotion of the products and services of the Bank and PBZ Group members for all segments;
- the **Customer Satisfaction & Complaints Office** is responsible for promoting the improvement of the customer experience, increasing of the customer satisfaction and loyalty and setting up a consumer-centric culture within the Bank. The Office is responsible for monitoring and analysing of the customer satisfaction and loyalty, the level of quality of provided services and to identify, to undertake and to monitor activities and plans for improvement of the customer's satisfaction. The Office is responsible to handle customers written complaints, disavowals and appeals to ADR from customers (through recording, handling, reporting and conducting of analysis with the purpose of introduction for necessary improvements);
- mission of the **Cybersecurity & BCM Department** is to define strategies and policies related to cybersecurity and information security matter, physical security (including occupational health and safety duties), business continuity and fraud prevention, to oversee their correct implementation, to manage risks linked to specified areas. This unit manages the Business Continuity Plan of the Bank, monitors activities in order to detect and handle any fraudulent actions, defines health and safety at work measures and assure their correct implementation. Role of Department is to spread culture of cybersecurity and information security, physical security (including occupational health and safety duties), fraud prevention and business continuity within the Bank by identifying the needs of awareness, communication and education of employees and by developing contents and the educational trainings. Department's duty is to coordinate at PBZ Group Level all activities related to cybersecurity, information security, Business Continuity Management, physical security and health protection executed by PBZ subsidiaries.

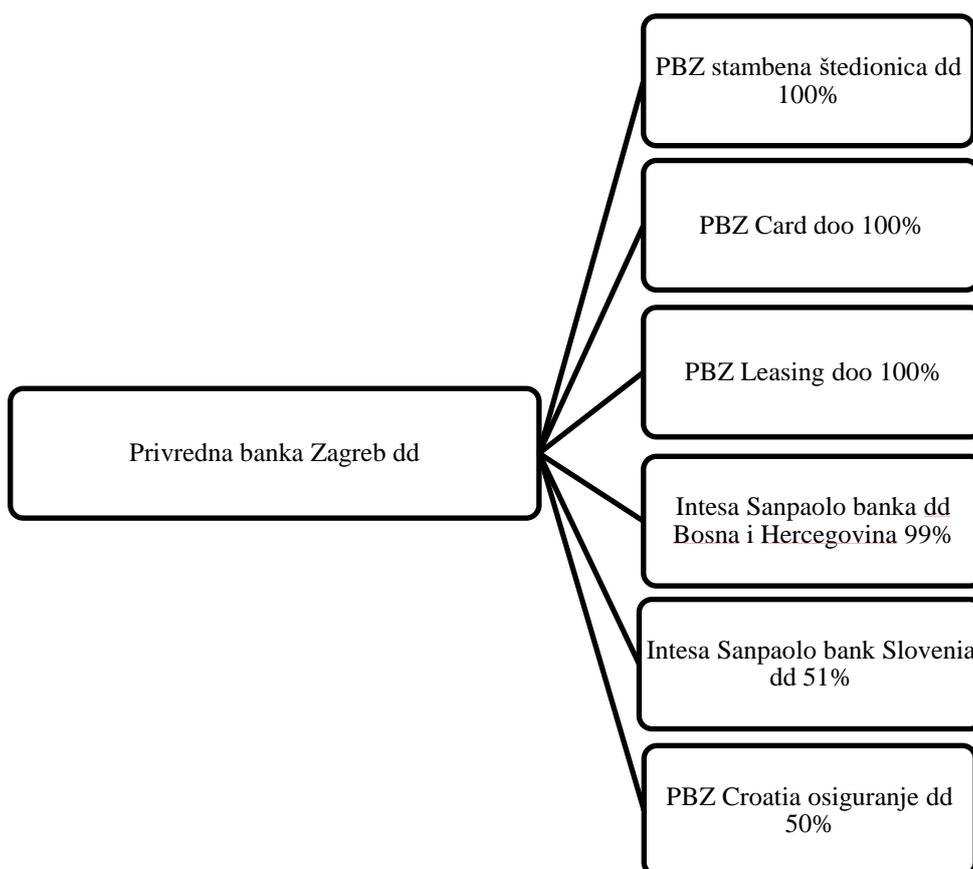
Business description of the Group

Joining the Intesa Sanpaolo Bosna and Hercegovina in 2015 and Banka Intesa Sanpaolo d.d. Slovenia in July 2017 the Privredna banka Zagreb Group is a multinational based financial services group which provides a full range of retail and corporate banking services to customers in Croatia, Bosna and Hercegovina and Slovenia.

At the end of 2021 the Group employs some 4,931 employees and serves almost 2 million both private and corporate clients in the three countries. PBZ Group is a well-organised institution whose market share in the overall banking system stands at 20.9 percent in Croatia (data from November 2021), 7.2 percent in Bosna and Hercegovina and 9.3 percent in Slovenia.

On 31 December 2021 the Group consisted of Privredna banka Zagreb d.d. and 5 subsidiaries and one associate (31 December 2020: 5 subsidiaries and one associate).

The composition of the Group and a brief description of each subsidiary are set out below.



PBZ Card

PBZ Card is the leading company in doing business with charge and credit cards of citizens and legal entities, including business with merchants, in the part of card acceptance. The Company offers a wide range of card products, including Visa Premium card of PBZ Card and Visa and Mastercard of Privredna banka Zagreb, which range from charge, debit, debit delayed, credit, pre-paid and other cards intended for natural and legal persons. PBZ Card's success is based on a wide and comprehensive knowledge and experience built over nearly fifty years and its strong position built by Privredna banka Zagreb as the leading bank in introducing new technologies and products in card business.

The year 2021 is the second year of PBZ Card's business with Premium Visa cards, in which, after the migration of the American Express portfolio to Premium Visa cards was completed in 2020, the business with Premium Visa cards has come to life and they were fully accepted by customers and business partners, including all their previous benefits as well as a number of new, innovative technologies and solutions, brought to customers by Visa. This has resulted in a very successful business and a complete recovery compared to 2020, including the issuing and acquiring of cards, owed to an increased domestic spending, strong growth in international spending due to the successful tourist season, and the growth of e-commerce.

Business description of the Group (continued)

PBZ Card (continued)

During 2021, PBZ Card successfully continued to adapt its business and offer to the specific market situation, which – for the second year in a row – was caused by the coronavirus pandemic, as well as regulatory changes, enabling its customers easier, faster and more secure card payments. Accordingly, the digital transformation of the offer as well as the general business of the company continued. This has resulted in further growth of contactless payment and the introduction of new and improvement of existing solutions and services. In addition to the previously introduced Google Pay and Apple Pay mobile wallets and increased payments without entering a PIN, in 2021 PBZ Card offered its customers a new MyWay mobile application, which brings many new functionalities, modern design and the highest security standards. The new MyWay mobile application is necessary for online payments as it activates and uses the new MyWay mToken, through which transactions are carried out in a simpler and faster way, and transaction security is at the highest level guaranteed by the 3-D Secure program. Bringing a number of new functionalities, the new MyWay mobile app offers biometric verification for in-app login and online purchase confirmation; overview of spending and payments by cards (previous and current year and non-invoiced, new expenses); review and status of Premium Rewards points and offers, including about 350 different offers with the possibility of realization at 1,200 service establishments; activation of the E-invoice service etc. Furthermore, last year the communication strategy was significantly intensified, as well as the offer of services and card sales, which, as in previous years, was focused on various digital channels. The offer to customers was further enriched by increasing the maturity of instalment payments, which can now be realized in up to 36 instalments without interest and fees, resulting in a positive impact on cooperation with service establishments.

The Company maintained its leading position on the domestic market in 2021. According to the latest publicly available data for the 3rd quarter of 2021, taking into account the number of cards, PBZ Group held a share of 30.04 percent of the total Croatian active card market, including a leading position in the credit card market with a share of 33.97 percent. The total turnover of users of Premium Visa, Visa and Mastercard card products in the first three quarters of 2021 on all channels accounted for 28.56 percent of total turnover, while that generated on POS devices amounted to 33.2 percent of turnover of Croatian card market users in the first three quarters of 2021. In the same period, PBZ Card maintained its leading position in the total number of EFT POS devices, holding 23.7 percent of the market.

In 2021, a number of activities were carried out to strengthen the reputation of PBZ Card as a socially responsible company. Intensive work continued and the promotion of the joint humanitarian project of PBZ and PBZ Card entitled "Doing Good Every Day". By the end of 2021, a total of more than HRK 26 million had been collected for the project and 59 donations were made, including donations to pediatric wards and children's hospitals and social welfare institutions, in order to improve health and social care for children and youth throughout Croatia. In addition, a total of HRK 4 million was donated from this project last year to help the victims and repair the consequences of the devastating earthquake that hit Sisak-Moslavina County.

PBZ Stambena Štedionica

PBZ Stambena Štedionica is a member of the PBZ Group and in the 100 percent ownership of Privredna banka Zagreb. PBZ Stambena Štedionica was founded in 2003 and is doing its business according to the Law on housing savings and government incentives to housing savings. Housing savings include organized collection of cash deposits from natural entities aimed at meeting the housing needs of depositors by means of loan approval for house building purposes in the area of the Republic of Croatia with financial support of the Government. Depositors, besides the interest received on their deposits from Štedionica, are also entitled to government incentives, which are related to the amount of deposits made in their housing savings accounts up to a limited amount. The government incentives are determined by the special decision taken by the Government each year.

PBZ Stambena Štedionica offers its clients four types of savings: Prima, Basic, Golden and Golden Children's Savings. Prima savings are aimed at clients whose goal is to make use of a housing loan as soon as possible. The Basic savings are aimed at clients who want to dispose of a larger amount of deposits for investments through a longer loan repayment period. The Golden Savings are aimed at clients whose first interest is in saving money. In order to promote the savings products with young clients PBZ Stambena Štedionica offers the Golden Children's Savings intended for children under 13 years. Depending on their needs during the saving period, depositors can change the savings type, as well as gain the right to take out a housing loan by means of interfinancing programme even before the savings period has expired.

Housing savings contracts can be made in all branches of Privredna banka Zagreb, where clients can obtain all the necessary information on housing savings and their existing housing savings accounts, make deposits into their savings accounts as well as the payment of their housing loan instalments.

Currently PBZ Stambena Štedionica has over 80,000 active housing savings accounts and deposits amounting to HRK 1.51 billion.

Business description of the Group (continued)

PBZ Leasing

PBZ Leasing is wholly owned by Privredna banka Zagreb d.d. Company was founded in 1991 under the name of "PBZ Stan". In the beginning it dealt with property appraisals and restructuring of the public housing fund. From 1995 until 2004, the company commenced granting car purchase loans by placing funds of Privredna banka Zagreb d.d.

From 2004, leasing has become core business activity of the company. Through finance and operating leases, the Company engaged in financing of real estates, personal and commercial vehicles, vessels, machinery and equipment. In the last year the Company made new leasing placement in amount of HRK 292 million.

By the end of 2021, PBZ Leasing made over 8.1 thousand (2020.: 8.5 thousand) active lease arrangements with customers, which in financial terms reached HRK 920 million (2020; 974 million).

Intesa Sanpaolo bank Bosna i Hercegovina

Intesa Sanpaolo Banka dd Bosna i Hercegovina was established in Sarajevo in 2000 as UPI bank dd Sarajevo. In 2006 the main shareholder became Intesa Sanpaolo Holding S.A Luxembourg, with 94.92 percent of ownership. In July 2007, UPI banka finished the merger process with LT Gospodarska banka dd Sarajevo. In 2008 the Bank changed its name to Intesa Sanpaolo Banka dd Bosna i Hercegovina.

Part of Intesa Sanpaolo Group from Italy, the Bank's majority shareholding was purchased in July 2015 by former sister company Privredna Banka Zagreb d.d., within the framework of an equity investments portfolio reorganization undertaken by the parent group, that during 2017 became 100 percent owner of the Bank.

The Bank maintains its commercial presence on the territory of BiH through its agencies and ATM network and further strengthens its cooperation with merchants and clients with the expansion of POS network. ISP Banka BiH performs general banking business with Retail and Corporate clients offering all ranges of products and commercial services commonly traded in the industry at BiH level.

As of September 2021, Intesa Sanpaolo Banka dd BiH is the 6th bank in Bosnia and Herzegovina by Total Assets and 5th by the Total loans, present in the country with 42 agencies in the Federation of BiH and 5 agencies in Republika Srpska. Its business operations are mainly concentrated (95 percent of Total Assets) in Federation of BiH, where the Bank ranks 3rd in total assets, loans and deposits, with respective market shares of 9.3 percent in Total Assets, 10.1 percent in loans and 8.5 percent in Deposits.

Intesa Sanpaolo Bank Slovenia

Intesa Sanpaolo Bank, formerly known as Banka Koper, was founded in 1955 and is the 4th largest commercial bank in Slovenia in terms of total assets, loans and deposits. The bank operates through a network of 44 branch offices located in the major Slovenian cities throughout the country.

Throughout the entire period of its existence, Intesa Sanpaolo Bank has grown and contributed to the growth of the economy through its successful operations. The Bank is one of the first banks in Slovenia to have shifted its business to digital platforms.

By renaming to Intesa Sanpaolo Bank and by transferring majority ownership to Privredna Banka Zagreb in 2017, the Bank laid the foundations for a further growth and development. The Bank's business strategy aims to revamp the Group's operations in Slovenia by targeting new business areas in retail, wealth management and corporate finance. With the new strategy and Business Plan for the period 2022–2025, the Bank pursues the goal of establishing itself as a modern, efficient and innovative bank in the all-Slovenian territory.

PBZ Croatia Osiguranje

PBZ Croatia Osiguranje a joint stock company for compulsory pension fund management. The company was incorporated on 26 July 2001 in accordance with changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb d.d. and Croatia osiguranje d.d. with ownership in the company of 50 percent belonging to each shareholder.

The principal activities of PBZ Croatia Osiguranje include establishing and management of the compulsory pension funds category A, B and C. Following the initial stages of gathering members, PBZ Croatia Osiguranje - fund category B became one of the three largest compulsory funds in the country. The company's pension funds continued to operate successfully during 2021.

At this point, pension funds under management have nearly 428 thousand members and net assets in personal accounts exceeding HRK 23.4 billion, which represents a sound base for the long-term stable and profitable operation of the company.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the separate and consolidated financial statements, other information and supplementary information

The Management Board of the Bank is required to prepare separate financial statements of Privredna banka Zagreb d.d. ("the Bank") and consolidated financial statements of Privredna banka Zagreb Group ("the Group") for each financial year which give a true and fair view of the financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with International Financial Reporting Standards as adopted by European Union, and is responsible for maintaining proper accounting records to enable the preparation of such separate and consolidated financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is also responsible for the preparation and content of the Management Board report for the Bank and the Group and the rest of other information (together "other information").

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/2018, 122/2020, 119/2021).

The Management Board is responsible for the submission to the Supervisory Board of its Annual report which includes the separate and consolidated financial statements, other information and supplementary information for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.

The separate and consolidated financial statements on pages 56 to 214 as well as supplementary forms for the Croatian National Bank and reconciliation of the statutory financial statements with the supplementary forms for the Croatian National Bank, set out on pages 215 to 259 and Management Board Report for the Bank and the Group on pages 8 to 22, Report from the President of the Supervisory Board on pages 6 to 7 and other information on pages 3 to 5 and 23 to 47 are approved by the Management Board on 22 February 2022 as confirmed by the signatures below.

For and on behalf of Privredna banka Zagreb d.d.

Dinko Lucić

President of the Management Board



Alessio Cioni

Deputy President of the Management Board



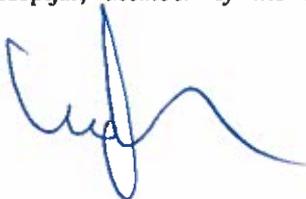
Antonio Bergaglio, *Member of the Management Board*



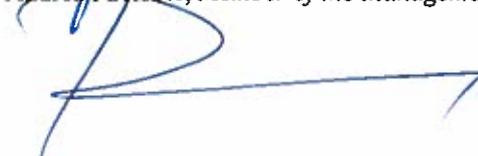
Vedrana Jelusić Kašić, *Member of the Management Board*



Draženko Kopljar, *Member of the Management Board*



Andreja Pavlović, *Member of the Management Board*



15 March 2022



EY

**Building a better
working world**

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Independent auditor's report

To the Shareholders of PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO (the Bank) and consolidated financial statements of PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO and its subsidiaries (together- the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2021, the separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2021 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU).

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 separate and consolidated financial statements* section of our report.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.



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Independent auditor's report (continued)

Impairment allowances of Loans and advances to customers

See Note 25 Loans and advances to customers and Note 47 Financial risk management policies

Impairment allowances on Loans and advances from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date.

For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding HRK 3 million, the impairment assessment is based on the knowledge of each individual debtor and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis.

Impairment allowances for retail exposures as well as corporate exposures below HRK 3 million individually (together "collective impairment allowance") are determined by modeling techniques.

Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgement are incorporated into the model. The Bank and the Group are continuously recalibrating the model parameters which also requires our increased attention in the audit.

Furthermore, allocation of loan exposures in a proper stage depends on Bank's and Group's judgment and assumptions on selection of triggers for identification of significant increase in credit risk of customers.

Additionally, COVID-19 pandemic also affected the estimate due to significant volume of given moratoriums and lower availability of relevant financial information on performance of Debtors. Uncertainty around this factor along with uncertain economic outlook resulted in more complex assessment of this effect onto expected credit loss model.

This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective and complex assumptions by management.

Our work covered impairment of both retail receivables and receivables from corporate counterparties. With the assistance of IT specialists, we assessed the design and tested the operating effectiveness of the controls, including the quality of underlying data and systems.

With the assistance of credit risk specialists, we assessed the methodology developed to calculate loan loss provision, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages, appropriateness of models used for calculation of Stage 1, Stage 2 and portion of Stage 3 allowances calculated on models (exposures below HRK 3 million) and estimation of key provisioning parameters.

We evaluated appropriateness of calculation of probability of default ("PD") and loss given default ("LGD"). Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward-looking information.

We examined a sample of exposures and performed procedures to evaluate the adequacy of classification of exposures in stages (including but not limited to recalculating the creditworthiness of clients, review of input parameters such as the PD, testing correctness of reported days past due, assessing adequacy of watch list status, forbearance status, assessing completeness of information on restructuring and moratoriums).

For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions and data underlying the impairment identification and quantification including forecasts of future cash flows and valuation of underlying collateral.

We also incorporated assessment of the COVID-19 impact into our procedures. We examined a sample of loan exposures and when performing analysis, we also assessed if their business was affected by COVID-19 pandemic and evaluated if there are triggers for significant increase in credit risk ("SICR") or default which may require client reclassification to Stage 2 or Stage 3.



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Independent auditor's report (continued)

Impairment allowances of Loans and advances to customers (continued)	
	<p>For individual Stage 3 assessment we observed how COVID-19 affected specific exposure and whether impact on projections of future cash flows was taken into account.</p> <p>Further we reviewed how the Bank and the Group incorporated Covid 19 impacts in calculation of Stage 1, Stage 2 and collective Stage 3 provisions. We engaged internal risk modelling specialists to review forward looking information ("FLI") and input parameters used and to assess if COVID-19 impact was adequately reflected on the PD and the FLI.</p> <p>We also assessed whether the separate and consolidated financial statement disclosures appropriately reflect the Bank's and Group's exposure to credit risk and are compliant with the IFRS as adopted by the EU.</p>

Provision for litigations related to loans originally issued in or indexed to Swiss Franc	
<p><i>See Note 38 Provisions for liabilities and charges</i></p> <p>As of 31 December 2021, the Bank and the Group recorded provisions for litigation cases related to loans originally issued or indexed to Swiss Francs ("CHF").</p> <p>The provision for litigation cases relates to loans that have been converted and 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.</p> <p>This area is determined to be a key audit matter as there are considerable judgements and estimates in applying the relevant requirements to estimating both timing and size of outflows of economic resources required to settle the Bank's and Group's obligations resulting from these specific litigation claims, given their inherent uncertainty and volume.</p>	<p>Our work included assessment of provisions for claims related to both converted and non-converted loans. We obtained understanding of the process and methodology applied to estimating the provisions for litigation related to loans originally granted in CHF. We assessed the methodology internally developed by the Bank and the Group for the provisioning of the converted and non-converted CHF loans.</p> <p>We obtained a detailed overview of the litigation claims against the Bank and the Group and the analytics of the provisions recognized 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 part of legal confirmation procedures.</p>



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Independent auditor's report (continued)

Provision for litigations related to loans originally issued in or indexed to Swiss Franc (continued)	
	<p>We obtained independent overviews and opinions pertaining to the Bank's and Group's litigation cases from the external law firms used by the management and we assessed the amounts of provisions for reasonableness by comparing provisions made with the external law firm's opinions and available information.</p> <p>We tested the calculation of the provisions for mathematical accuracy.</p> <p>We also assessed adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with requirements of IFRS as adopted by the EU.</p>

Other matter

The separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 4 March 2021.

Other information included in the Bank's and the Group's Annual Report for year 2021

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management Report other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management Report for the 2021 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. the enclosed Management Report for 2021 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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



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Independent auditor's report (continued)

Responsibilities of Management and Audit Committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group'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 and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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Independent auditor's report (continued)

Auditor's responsibilities for the audit of the separate and consolidated financial statements (continued)

We communicate with Audit Committee 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 Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank and the Group on 26 April 2021, representing a total period of uninterrupted engagement appointment of 1 year.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 24 February 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.



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Independent auditor's report (continued)

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 215 to 259, and which contain a statement of financial position as at 31 December 2021, income statement, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the separate and consolidated financial statements of the Bank and the Group ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the separate and consolidated financial statements but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited separate and consolidated financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited separate and consolidated financial statements of the Bank which were prepared in accordance with statutory accounting regulation as applicable for banks in Croatia as presented on pages 56 to 214 and are based on underlying accounting records of the Bank and the Group.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić

Certified auditor and Board member

Ernst & Young d.o.o.

Radnička cesta 50, Zagreb

15 March 2022

Income statement

For the year ended 31 December

(in HRK million)

	Notes	GROUP		BANK	
		2021	2020	2021	2020
Interest income calculated using the effective interest method	6b	2,706	2,795	2,052	2,152
Other interest income	6b	35	47	29	36
Interest expense	6c	(199)	(226)	(116)	(140)
Net interest income		2,542	2,616	1,965	2,048
Fee and commission income	7a	1,863	1,706	998	906
Fee and commission expense	7b	(381)	(323)	(254)	(208)
Net fee and commission income		1,482	1,383	744	698
Dividend income	8	1	1	122	40
Net trading income and net gains on translation of monetary assets and liabilities	9	260	230	237	204
Fair value adjustment in hedge accounting	10	1	(10)	-	-
Other operating income	11	92	77	35	53
Total operating income		4,378	4,297	3,103	3,043
Net impairment losses on loans and advances to customers	14a	(55)	(573)	10	(415)
Other impairment losses and provisions	14b	(309)	(37)	(301)	(40)
Personnel expenses	12	(1,048)	(1,043)	(684)	(683)
Depreciation, amortisation and impairment of goodwill	15	(254)	(238)	(185)	(175)
Other operating expenses	13	(1,008)	(1,124)	(592)	(696)
Share of profits from associates	26	11	10	-	-
Profit before income tax		1,715	1,292	1,351	1,034
Income tax expense	16	(312)	(267)	(236)	(217)
Profit for the year		1,403	1,025	1,115	817
Attributable to:					
Equity holders of the Bank		1,338	978	1,115	817
Non-controlling interests		65	47	-	-
		1,403	1,025	1,115	817

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Profit for the year	1,403	1,025	1,115	817
Other comprehensive income				
Items that will not be reclassified to profit or loss				
<i>Net value adjustment from valuation of property</i>	(4)	171	(1)	83
<i>Net change in fair value on equity instrument</i>	1	7	-	5
Related tax	2	(32)	1	(15)
	(1)	146	-	73
Items that are or may be reclassified to profit or loss				
<i>Net change in fair value on debt instruments</i>	(60)	11	(33)	(11)
<i>Foreign exchange differences on translation of foreign operations</i>	(10)	38	-	-
<i>Net amount transferred to profit or loss</i>	14	(32)	-	(6)
Related tax	7	5	6	3
	(49)	22	(27)	(14)
Other comprehensive income for the year, net of tax	(50)	168	(27)	59
Total comprehensive income for the year, net of tax	1,353	1,193	1,088	876
Attributable to:				
Equity holders of the Bank	1,294	1,127	1,088	876
Non-controlling interests	59	66	-	-
	1,353	1,193	1,088	876

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of financial position*As of 31 December*

(in HRK million)

Assets	Notes	GROUP		BANK	
		2021	2020	2021	2020
Cash and current accounts with banks	18	35,885	27,002	27,403	21,425
Balances with the Croatian National Bank	19	4,533	4,035	4,533	4,035
Financial assets held for trading	21	1,135	1,269	1,135	1,269
Derivative financial assets	22a,b	43	2	37	1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22c	31	77	(3)	-
Loans and advances to banks	24a,c	6,230	6,404	4,659	5,329
Loans and advances to customers	25a	78,679	75,087	53,835	51,170
Investment securities	20	11,750	11,678	9,504	9,239
Investments in subsidiaries and associates	26	66	65	1,962	1,962
Other assets	31	206	261	119	129
Current tax assets		30	52	-	7
Property and equipment	28	1,791	1,790	1,078	1,033
Investment property	29	74	86	24	30
Non-current assets held for sale	30	23	65	8	13
Deferred tax assets	16c	136	132	83	76
Intangible assets	27	370	317	252	206
Total assets		140,982	128,322	104,629	95,924

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of financial position (continued)*As of 31 December*

(in HRK million)

Liabilities	Notes	GROUP		BANK	
		2021	2020	2021	2020
Current accounts and deposits from banks	32	1,295	1,847	1,911	2,190
Current accounts and deposits from customers	33	109,980	99,461	81,112	73,155
Derivative financial liabilities	23a,b	98	237	1	25
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23c	4	-	-	-
Current tax liability		18	-	11	-
Other liabilities	36	1,722	1,610	714	762
Accrued expenses and deferred income	37	318	265	148	111
Interest-bearing borrowings and other financial liabilities	34	6,972	5,628	3,597	3,613
Senior non-preferred debt	35	827	-	827	-
Provisions	38	737	553	665	480
Deferred tax liabilities	16d	82	97	31	37
Total liabilities		122,053	109,698	89,017	80,373
Equity					
Share capital	40a	1,907	1,907	1,907	1,907
Share premium	40b	1,570	1,570	1,570	1,570
Treasury shares	40c	(278)	(70)	(274)	(68)
Other reserves	40e	1,766	1,488	600	434
Fair value reserve	40f	3	41	(4)	23
Retained earnings	40g	13,972	13,733	11,813	11,685
Merger reserve		(1,214)	(1,214)	-	-
Total equity attributable to equity holders of the Bank		17,726	17,455	15,612	15,551
Non-controlling interests		1,203	1,169	-	-
Total equity		18,929	18,624	15,612	15,551
Total liabilities and equity		140,982	128,322	104,629	95,924

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

(in HRK million)

	Notes	GROUP		BANK	
		2021	2020	2021	2020
Cash flows from operating activities					
Profit before income tax		1,715	1,292	1,351	1,034
Impairment losses on loans and advances to customers	14a	55	573	(10)	415
Other impairment losses and provisions	14b	309	37	301	40
Gain on disposal of property and equipment, intangible assets and investment property	11	(30)	(21)	(6)	(25)
Depreciation, amortisation and impairment of goodwill	15	254	238	185	175
Net losses from securities at fair value through profit or loss	9	22	-	25	8
Share of profits from associates	26	(11)	(10)	-	-
Net interest income		(2,542)	(2,616)	(1,965)	(2,048)
Net (losses)/gains on derecognition of financial assets not measured at fair value	11	2	(32)	2	(14)
Dividend income	8	(1)	(1)	(122)	(40)
		(227)	(540)	(239)	(455)
Decrease/(increase) in operating assets					
Balances with the Croatian National Bank		(502)	866	(502)	866
Loans and advances to banks		(584)	(920)	(105)	(69)
Loans and advances to customers		(3,774)	(5,163)	(2,773)	(4,426)
Financial assets at fair value through profit or loss and FVOCI financial assets and fair value changes of the hedged items in portfolio hedge of interest rate risk		36	77	(129)	(369)
Other assets		170	7	21	111
(Increase) in operating assets		(4,654)	(5,133)	(3,488)	(3,887)

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of cash flows (continued)

For the year ended 31 December

(in HRK million)

	Notes	GROUP		BANK	
		2021	2020	2021	2020
Increase/(decrease) in operating liabilities					
Current accounts and deposits from banks		(600)	3	(320)	467
Current accounts and deposits from customers		10,682	9,896	8,046	7,519
Other liabilities		774	(573)	(108)	(245)
Increase in operating liabilities		10,856	9,326	7,618	7,741
Interest received		2,779	2,889	2,088	2,180
Interest paid		(250)	(479)	(145)	(329)
Dividends received		11	13	122	40
Net cash inflow from operating activities before income taxes paid		8,515	6,076	5,956	5,290
Income tax paid		(277)	(386)	(225)	(273)
Net cash from operating activities		8,238	5,690	5,731	5,017
Cash flows from investing activities					
Purchase of property and equipment, intangible assets and investment property	27,28,29	(356)	(259)	(293)	(203)
Disposal of property and equipment, intangible assets and investment property	27,28,29	(62)	100	(10)	81
Disposal of non-current assets held for sale		30	21	-	24
Net cash used in investing activities		(388)	(138)	(303)	(98)

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of cash flows (continued)

For the year ended 31 December

(in HRK million)

	Notes	GROUP		BANK	
		2021	2020	2021	2020
Cash flows from financing activities					
Dividends paid		(817)	-	(817)	-
Increase in interest-bearing borrowings and subordinated liabilities		1,387	224	894	145
Purchase of treasury shares		(219)	-	(217)	-
Proceeds from sale of treasury shares		8	-	8	-
Cash paid for IFRS 16 leases		(108)	(94)	(102)	(87)
Net cash used in financing activities		251	130	(234)	58
Net increase in cash and cash equivalents		8,101	5,682	5,194	4,977
Cash and cash equivalents as at 1 January		31,877	26,234	26,345	21,407
Effect of exchange rate fluctuations on cash held		16	(39)	16	(39)
Cash and cash equivalents as at 31 December	41	39,994	31,877	31,555	26,345

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of changes in equity

Group	(in HRK million)								Total
	Share capital	Share premium	Treasury share-s	Other re-serves	Fair value-e reserve	Retaine-d earnings	Merger reserve	Non-con-trolling interest	
Balance as at 31 December 2020	1,907	1,570	(70)	1,488	41	13,733	(1,214)	1,169	18,624
Other comprehensive income									
Net change in fair value on equity instrument	-	-	-	-	-	-	-	1	1
Net change in fair value on debt instrument	-	-	-	-	(51)	-	-	(9)	(60)
Net amount transferred to the income statement	-	-	-	-	7	-	-	7	14
Related tax	-	-	-	-	6	-	-	1	7
Reversal of revaluation reserve of land and buildings	-	-	-	(2)	-	-	-	(2)	(4)
Deferred tax on tangible assets	-	-	-	1	-	-	-	1	2
Foreign exchange differences on translation of foreign operations	-	-	-	(5)	-	-	-	(5)	(10)
Total other comprehensive income	-	-	-	(6)	(38)	-	-	(6)	(50)
Profit for the year	-	-	-	-	-	1,338	-	65	1,403
Total comprehensive income for the year	-	-	-	(6)	(38)	1,338	-	59	1,353
Dividends paid	-	-	-	(817)	-	-	-	-	(817)
Dividend paid by Banka Intesa Sanpaolo d.d. Slovenia	-	-	-	-	-	-	-	(25)	(25)
Purchase and sale of treasury shares	-	-	(219)	-	-	-	-	-	(219)
Stock-based payment	-	-	11	(4)	-	-	-	-	7
Transfer of net profit earned in 2020 to other reserves	-	-	-	817	-	(817)	-	-	-
Transfer of retained earnings to treasury reserve	-	-	-	174	-	(174)	-	-	-
Transfer of retained earnings to statutory reserve by Banka Intesa Sanpaolo d.d.	-	-	-	117	-	(117)	-	-	-
Other movements	-	-	-	3	-	(9)	-	-	6
Transactions with owners, recorded directly in equity	-	-	(208)	284	-	(1,099)	-	(25)	(1,048)
Balance as at 31 December 2021	1,907	1,570	(278)	1,766	3	13,972	(1,214)	1,203	18,929

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Group	Share capital	Share premium	Treasury share-s	Other re-serves	Fair value-e reserve	Retaine-d earn-ings	Merger reserve	Non-con-trolling interest	Total
Balance as at 31 December 2019	1,907	1,570	(76)	1,397	92	12,643	(1,214)	1,103	17,422
Other comprehensive income									
Net change in fair value on equity instrument	-	-	-	-	6	-	-	1	7
Related tax	-	-	-	-	(1)	-	-	-	(1)
Net change in fair value on debt instrument	-	-	-	-	2	-	-	9	11
Net amount transferred to the income state-ment	-	-	-	-	(20)	-	-	(12)	(32)
Related tax	-	-	-	-	6	-	-	(1)	5
Revaluation of land and buildings	-	-	-	160	-	-	-	11	171
Deferred tax on tangible assets	-	-	-	(29)	-	-	-	(2)	(31)
Foreign exchange differences on translation of foreign operations	-	-	-	25	-	-	-	13	38
Total other comprehensive income	-	-	-	156	(7)	-	-	19	168
Profit for the year	-	-	-	-	-	978	-	47	1,025
Total comprehensive income for the year	-	-	-	156	(7)	978	-	66	1,193
Stock-based payment	-	-	6	(2)	-	-	-	-	4
Other movements	-	-	-	(63)	(44)	112	-	-	5
Transactions with owners, recorded di-rectly in equity	-	-	6	(65)	(44)	112	-	-	9
Balance as at 31 December 2020	1,907	1,570	(70)	1,488	41	13,733	(1,214)	1,169	18,624

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Bank	Share capital	Share pre- mium	Treasury shares	Other reserves	Fair value re- serve	Retained earnings	Total
Balance as at 31 December 2020	1,907	1,570	(68)	434	23	11,685	15,551
Other comprehensive income							
Net change in fair value on debt instrument	-	-	-	-	(33)	-	(33)
Related tax	-	-	-	-	6	-	6
Reversal of revaluation reserve of land and buildings	-	-	-	(1)	-	-	(1)
Deferred tax on tangible assets	-	-	-	1	-	-	1
Total other comprehensive income	-	-	-	-	(27)	-	(27)
Profit for the year	-	-	-	-	-	1,115	1,115
Total comprehensive income for the year	-	-	-	-	(27)	1,115	1,088
Dividends paid	-	-	-	(817)	-	-	(817)
Purchase and sale of treasury shares	-	-	(217)	-	-	-	(217)
Stock-based payment	-	-	11	(4)	-	-	7
Transfer of net profit earned in 2020 to other reserves	-	-	-	817	-	(817)	-
Transfer of retained earnings to treasury reserve	-	-	-	174	-	(174)	-
Other movements	-	-	-	4	-	(4)	-
Transactions with owners, recorded directly in equity	-	-	(206)	166	-	(987)	(1,027)
Balance as at 31 December 2021	1,907	1,570	(274)	600	(4)	11,813	15,612

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Statement of changes in equity (continued)

Bank	(in HRK million)						
	Share capital	Share pre- mium	Treasury shares	Other reserves	Fair value re- serve	Retained earnings	Total
Balance as at 31 December 2019	1,907	1,570	(76)	367	69	10,824	14,661
Other comprehensive income							
Net change in fair value on equity instru- ment	-	-	-	-	5	-	5
Related tax	-	-	-	-	(1)	-	(1)
Net change in fair value on debt instrument	-	-	-	-	(11)	-	(11)
Net amount transferred to the income state- ment	-	-	-	-	(6)	-	(6)
Related tax	-	-	-	-	3	-	3
Revaluation of land and buildings	-	-	-	83	-	-	83
Deferred tax on tangible assets	-	-	-	(14)	-	-	(14)
Total other comprehensive income	-	-	-	69	(10)	-	59
Profit for the year	-	-	-	-	-	817	817
Total comprehensive income for the year	-	-	-	69	(10)	817	876
Sale of treasury shares	-	-	4	(1)	-	-	3
Stock-based payment	-	-	4	(1)	-	-	3
Other movements	-	-	-	-	(36)	44	8
Transactions with owners, recorded di- rectly in equity	-	-	8	(2)	(36)	44	14
Balance as at 31 December 2020	1,907	1,570	(68)	434	23	11,685	15,551

The accompanying accounting policies and notes on pages 67 to 214 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Privredna banka Zagreb d.d. (“the Bank”) is a joint stock company incorporated and domiciled in the Republic of Croatia. The registered office is at Radnička cesta 50, Zagreb. The Bank has been assigned a personal identification number (OIB) 02535697732, and it is registered in the Court Register under registration number 89992917. The Bank is the parent of the Privredna banka Zagreb Group (“the Group”), which has operations in the Republic of Croatia, Bosnia and Herzegovina and Republic of Slovenia. The Group provides a full range of retail and corporate banking services, as well as treasury, investment banking, asset management and leasing services.

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

A summary of the Group’s principal accounting policies is set out below.

2 Basis of preparation

a) Basis of accounting

These separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union (“IFRS EU”).

These separate and consolidated financial statements were authorised for issue by the Management Board on 22 February 2022 for approval by the Supervisory Board.

b) Basis of measurement

The separate and consolidated financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment property. Owner-occupied property is measured according to revaluation method. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

c) Functional and presentation currency

The separate and consolidated financial statements are presented in Croatian kuna (“HRK”) which is presentation currency of the Bank and the Group, Amounts are rounded to the nearest million, unless otherwise stated.

The exchange rates used for translation at 31 December 2021 amounted to EUR 1 = HRK 7.517, CHF 1 = HRK 7.248, USD 1 = HRK 6.644 and BAM 1 = HRK 3.843 (31 December 2020: EUR 1 = HRK 7.537, CHF 1 = HRK 6.948, USD 1 = HRK 6.139 and BAM 1 = HRK 3.854).

During 2021 and 2020 BAM (official currency of Bosnia and Herzegovina) was pegged with Euro at 1 EUR = 1.9558 BAM.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period and other comprehensive income. 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 if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Information about judgments made by management in the application of accounting policies that have a significant effect on the financial statements and information about estimates with a significant risk of resulting in a material adjustment in the next financial year are included in Note 5.

Notes to the financial statements (continued)

3 Changes in accounting policies

Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the current period:

- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions, issued on 31 March 2020 (effective date for annual periods beginning on or after 1 April 2021).
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2, issued on 27 August 2020 (effective date for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9, issued on 25 June 2020 (effective date for annual periods beginning on or after 1 January 2021).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Bank and the Group.

Standards and Interpretations issued by IASB and endorsed by the EU but not yet effective

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).
- Amendments to Annual Improvements 2018-2020, issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).
- IFRS 17 Insurance contracts, issued on 18 May 2017; including Amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The endorsement might be expected in 2022:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date, issued on 23 January 2020 and 15 July 2020 respectively (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transactions, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).

The Bank and the Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company and the Group.

Notes to the financial statements (continued)

4 Significant accounting policies

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reassessing its control conclusion, the Group has taken into consideration the structured entities and entities with receivables in default for which it reassessed whether the key decisions are made by the Group and whether the Group is exposed to variability of returns from those entities. Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

Acquisitions on or after 1 January 2010

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

ii) Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

a) Basis of consolidation (continued)

iii) *Subsidiaries*

Financial statements are prepared for the Bank and the Group, Financial statements of the Group include consolidated financial statements of the Bank and its entities under control (subsidiaries). In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The Group controls an entity if it is exposed to, or has rights to, variable returns from the involvement with the entity and has the ability to alter those returns throughout its power over the entity. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated in preparing the consolidated financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

iv) *Associates*

Associates are entities over which the Group has significant influence but no control as the Group does not have power over the relevant activities of those entities. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dividends received from associates are treated as a decrease of investment in the associate in the Group's consolidated statement of financial position and as dividend income in the Bank's unconsolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

v) *Acquisition of entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using book value accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Group equity except for issued capital.

Consolidated financial statements reflect the results of combining entities for all periods presented for which the entities were under the transferor's common control, irrespective of when the combination takes place.

vi) *Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy in Note 4 l) Financial instruments) depending on the level of influence retained.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

a) Basis of consolidation (continued)

vii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

viii) Fund management

The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (during the reporting period). Information about the Group's fund management activities is set out in Note 42.

b) Foreign currency

i) Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the mid-market exchange rate of the Croatian National Bank. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date on which the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the income statement, except for differences arising on the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI, which are recognised in other comprehensive income.

Changes in the fair value of debt securities denominated in foreign currency classified as financial instruments measured at FVOCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences on financial instruments measured at FVOCI are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary securities denominated in foreign currency classified as financial instruments measured at FVOCI are recognised directly in other comprehensive income along with other changes, net of deferred tax. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 *Financial Instruments: Measurement and Recognition* ("IAS 39") and International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9").

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

c) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability,

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see I (xi).

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

c) Interest income and expense (continued)

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost and interest expense on lease liabilities.

d) Fee and commission income and expense

Loan commitment fees for loans and advances that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities that are not likely to be drawn down are recognised over the term of the commitment. Fee and commission income and expense mainly comprise fees and commissions related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and asset management, and are recognised in the income statement upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

e) Net trading income and net gains and losses on translation of monetary assets and liabilities

Net trading income and net gains and losses on translation of monetary assets and liabilities include spreads earned from foreign exchange spot trading, trading income from forward and swap contracts, realised and unrealised gains on securities at fair value through profit or loss and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency and non-trading assets mandatorily measured at FVTPL.

f) Other operating income

Other operating income includes net gains on disposal of securities classified as financial instruments measured at FVOCI, net gains on disposal of property and equipment, rental income from investment property and assets under operating lease and other income.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

g) Employee benefits

Employee entitlements to annual leave are recognised when they accrue. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

i) Personnel social contributions

According to local legislation, the Croatian entities of the Group are obliged to pay contributions to the Pension Fund and the State Health Care Fund. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of gross salary which are in the Republic of Croatia as follows:

	2021	2020
Contributions to the Pension Fund	20.00%	20.00%
Contributions to the State Health Care Fund	16.50%	16.50%

The Group is also obliged to withhold contributions from the gross salary on behalf of the employee for the same funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits in the income statement as they accrue.

ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Share-based payment transactions

The Group has a share-based payment agreement which entitle the key employees to receive the cash payment, based on the price of the equity instrument (cash-settled transactions). The liability is initially measured by reference to the fair value of equity instruments at the grant date and re-measured until settlement. The fair value is determined as the market value of shares. The cost of cash-settled transactions is recognised over the period in which the performance and/or service conditions are fulfilled.

v) Retirement benefit obligation

Valuations of these obligations are carried out by independent qualified actuaries, by using the book reserve method.

The Group's obligation for the current service cost of providing pension benefits and the increment in the present value of the defined benefit obligation due to the approaching beginning of the defined benefit liability (interest cost) was assessed. The increase in the benefit scheme liabilities in excess of the above two assessments is recognised as the actuarial gain or loss. The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

h) Direct acquisition costs related to housing savings

Direct acquisition expenses related to housing savings contracts are deferred, to the extent that they are estimated to be recoverable, and amortised to the income statement on a straight-line basis over the life of the related contracts.

i) Dividend income

Dividend income on equity securities is credited to the income statement when the right to receive the dividend is established except for dividend income from associates which is on consolidation credited to the carrying values of investments in associates in the Group's statement of financial position.

j) Income tax

The income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainties related to income taxes, if any.

ii) Deferred income tax

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets and liabilities are not discounted and are classified as non-current and/or long-term assets in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturity of less than 90 days, including cash and current accounts with banks and loans and advances to banks up to 90 days.

l) Financial instruments

i) Recognition

The Group initially recognises loans and advances and other financial liabilities on the date at which they are originated, i.e. advanced to borrowers or received from lenders.

Regular way transactions with financial instruments are recognised at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value of the underlying asset or liability are recognised starting from the trade date. All other financial assets and liabilities (derivatives) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice.
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

ii) Classification (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers a:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Loans and advances

'Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

ii) Classification (continued)

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets, that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the income statement.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in ii). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. If transfer does not result in derecognition because the Group retained all or substantially all risks and rewards of ownership, the assets are not derecognised and liabilities secured with collateral are recognised in the amount of consideration received.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. If the terms of a financial liability are significantly modified, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

iv) Modifications of financial assets and liabilities

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (xi)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see (c)).

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

v) *Reclassification*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

vi) *Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting regulations, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

vii) *Initial and subsequent measurement*

When a financial asset or financial liability is recognised initially, the Group measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs which are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are immediately charged to the income statement.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial instruments measured at FVOCI at their fair value, without any deduction for selling costs.

Loans and receivables and other financial liabilities are measured at amortised cost (less any ECL for the assets) using the effective interest method.

viii) *Gains and losses*

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss as well as all related realised gains and losses arising upon a sale or other derecognition of such assets and liabilities are recognised in the income statement.

Gains and losses from a change in the fair value of financial instruments measured at FVOCI are recognised directly in a fair value reserve in other comprehensive income, net of deferred tax, and are disclosed in the statement of changes in equity. Loss allowances, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial instruments measured at FVOCI monetary assets are recognised in the income statement. Loss allowances on non-monetary financial instruments measured at FVOCI assets are also recognised in the income statement. Foreign exchange differences on non-monetary financial instruments measured at FVOCI are recognised in other comprehensive income, net of deferred tax. Dividend income is recognised in the income statement.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the income statement, when a financial instrument is derecognised or when its value is impaired.

ix) *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

x) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for the instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

The fair values of quoted investments are based on current closing bid prices.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current credit-worthiness of the counterparties.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

xi) Impairment of financial assets

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments and financial assets at FVTPL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

1) Financial instruments (continued)

xi) Impairment of financial assets

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision,
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

m) Derivative financial assets

All derivatives are measured at fair value in the statement of financial position. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

Derivatives may be embedded in another contractual arrangement (a host contract), The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

n) Hedge accounting

The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges could refer to:

- Fair value hedge – a hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedge – a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- Hedge of a net investment in a foreign currency.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

n) Hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are tested regularly throughout their life to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

The Group uses fair value hedge to cover exposure to changes in the fair value attributable to the different risk categories of assets and liabilities in the statement of financial position, or a portion of these or to cover portfolios of financial assets and liabilities.

o) Sale and repurchase agreements

The Group 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 as loans and advances 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.

p) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements whilst investments in associates are accounted for under the equity method.

q) Interest-bearing borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are initially recognised at their fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

r) Current accounts and deposits from banks and customers

Current accounts and deposits are initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

s) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date.

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. The implicit interest rate cannot always be readily determined without using estimates and assumptions. In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'interest bearing borrowings' in the statement of financial position.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

s) Leases (continued)

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group as lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see 1) (iii) and (xi)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

t) Property and equipment

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses, except for owner-occupied property which have been measured according to the revaluation method. The latter method requires that property, whose fair value can be measured reliably, to be recognized at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of land and buildings is measured on the basis of market benchmarks, in an appraisal that is normally prepared by professionally qualified appraisers. The frequency of revaluations depends upon the changes in fair value of items of property being revalued.

Historical cost includes its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Property and equipment are tangible items that are held for use in the provision of services, for rental or other administrative purposes.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they have incurred.

Assets not yet brought into use are not depreciated until the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment.

Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write-off the cost over the estimated useful life of the asset. The estimated useful lives are as follows:

	2021	2020
Buildings	10 to 40 years	10 to 40 years
Office furniture	5 years	5 years
Computers	4 to 6 years	4 to 6 years
Motor vehicles	5 years	5 years
Equipment and other assets	2 to 10 years	2 to 10 years

The assets residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

When an item of property is revalued, the carrying value of that asset is adjusted to the revalued amount so that the accumulated depreciation is eliminated against the gross carrying amount of the asset.

After initial recognition of property:

- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Other comprehensive income and accumulated in equity under the revaluation reserve caption
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Profit or loss
- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Profit or loss to the extent that it reverses a revaluation decrease of the same property previously recognized in Profit or loss
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

t) Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property.

When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the income statement.

u) Intangible assets

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

Subsequently, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives. The estimated useful lives are as follows:

	2021	2020
Licence fees	6 years	6 years
Computer software	6 years	6 years

The useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon the legal merger of the Bank's former subsidiary, Međimurska banka, goodwill formerly arising on acquisition was transferred into goodwill recognised in the Bank's separate statement of financial position. Goodwill on acquisition of subsidiaries and purchased goodwill is included in intangible assets. Goodwill on acquisition of associates is included within investments in associates.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

v) Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured at its fair value.

Investment property is derecognised when either it has been disposed of or permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

w) Non-current assets and disposal groups classified as held for sale

The Group classifies a non-current asset as held for sale (or disposal groups comprising assets and liabilities) assets that are expected to be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and the sale should be expected to be completed within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell.

A non-current asset classified as held for sale is no longer depreciated. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies.

At reclassification back, on change of intent or if the conditions required by IFRS 5 cease to be applicable, the Group does not restate comparative information in the balance sheet. Upon reclassification the valuation is adjusted in accordance with relevant standards, as if the reclassification had not occurred.

x) Foreclosed assets

Sometimes the Group recovers assets that were originally received as collateral for loan, after exercising contractual rights or undertaking specific legal action. When the assets are recognised on the balance sheet for the first time, it is recognised at its fair value. Any difference between its fair value and the carrying amount of the loan that triggered recovery of the asset is considered an impairment loss on loan. After initial recognition, the repossessed assets are measured according to the relevant accounting standard, depending on the scope for holding the property. Generally, Group measures repossessed assets according to IAS 2 Inventory, except in rare circumstances when the asset is put in use.

y) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment whenever there are indications that these may be impaired or at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

y) Impairment of non-financial assets (continued)

Other previously impaired non-financial assets, other than goodwill, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

z) Provisions

Provisions are recognised when the Group 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 the level that the Group's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

Provisions are released only for expenditure for which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

aa) Issued share capital

Issued share capital represents the nominal value of paid-in ordinary shares and is denominated in HRK.

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

bb) Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders and classified as treasury shares until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

cc) Retained earnings

Any profit for the year retained after appropriations is classified within retained earnings.

dd) Off-balance-sheet commitments and contingent liabilities

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

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

dd) Off-balance-sheet commitments and contingent liabilities (continued)

Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Financial guarantees are included within Other liabilities.

ee) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers, banks and other institutions. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered the Group charges a fee. For details please refer to Note 42.

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. Critical judgments relating to allowance for credit losses are particularly complex in the current uncertain environment. The COVID-19 pandemic has continued to evolve and the economic environment in which we operate could be subject to sustained volatility, which could continue to impact our financial results, as the duration of the COVID-19 pandemic, and the effectiveness of steps undertaken by governments and central banks remains uncertain. We continue to monitor and assess the impacts of the COVID-19 pandemic on our critical accounting judgments, estimates and assumptions.

The estimation of allowance for credit losses represents management's best estimate of risk of default and ECLs on the financial assets, including any off-balance sheet exposures, at the reporting date and, as part of this, the estimation of the fair value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

These disclosures supplement the commentary on fair values of financial assets and liabilities (Note 46) and financial risk management (Note 47).

a) *Classification of financial assets*

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. Refer to Note 4 L(ii) for details on the Bank's business models. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Group considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

b) *Impairment of financial assets*

Significant Increase in Credit Risk

Criteria for assessing significant increase in credit risk for retail exposures are defined at the appropriate portfolio level and vary based on the exposure's credit risk at origination. The criteria include changes in internal credit risk rating, forbearance measures and delinquency backstop when contractual payments are materially more than 30 days past due. Additional criteria that are used for identification of significant increase in credit risk are based on internal assessment (internal watch list) and applied forbearance measures. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies (continued)

b) Impairment of financial assets (continued)

Measurement of Expected Credit Loss

Significant Increase in Credit Risk for corporate exposures is determined based on internal credit risk rating which is assessed at individual borrower basis using sector-specific credit risk models that are based on historical data. Current and forward-looking information that is specific to the borrower, industry, and sector is considered based on expert credit judgment. Criteria for assessing significant increase in credit risk are defined at the appropriate segmentation level and vary based on the internal credit risk rating of the exposure at origination. Criteria include relative changes in internal credit risk rating and delinquency backstop when contractual payments are more than 30 days past due. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Expected credit losses are calculated as the product of PD, loss given default (LGD), and exposure at default (EAD) over the remaining expected life of the financial asset and discounted to the reporting date at the effective interest rate for exposures with significant increase in credit risk (i.e. stage 2 contracts). On the other hand, for exposures classified as stage 1, expected credit loss is calculated over 1 year horizon, i.e. 1 year expected credit loss is estimated. PD estimates represent the point-in-time PD, updated on a yearly basis based on the group's historical experience, current conditions, and relevant forward-looking expectations. LGD estimates are determined based on historical recovery payments. EAD incorporates forward-looking expectations about repayments of drawn balances and expectations about future draws where applicable.

The Group first assesses whether evidence of impairment exists individually for assets that are individually significant, corporate exposures with total balance exceeding HRK 3.8 million, (2020: corporate exposure with total balance exceeding HRK 3.8 million) and collectively for assets that are not individually significant (retail exposures and corporate exposures below threshold of HRK 3.8 million).

Impairment allowance on assets individually assessed as credit-impaired is based on the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed separately, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Forward-Looking Information

In calculating the ECL, the Group employs internally developed models that utilize parameters for PD, LGD, and EAD. Forward-looking macroeconomic factors determined at the regional level are incorporated in the risk parameters as relevant. Additional risk factors that are segment specific are also incorporated, where relevant.

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs.

In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Group has decided to adopt the "Most likely scenario+ Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely") and then corrected with an Add-On to include any differences compared to downside and upside scenarios.

Expected Credit Losses

ECLs are recognized on initial recognition of the financial assets. Allowance for credit losses represents management's best estimate of risk of default and ECLs on the financial assets, including any off-balance sheet exposures, at the reporting date.

Management's judgment is used to determine the point within the range that is the best estimate for the qualitative component contributing to ECLs, based on an assessment of business and economic conditions, historical loss experience, loan portfolio composition, and other relevant indicators and forward-looking information. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the current economic conditions. Loss rates are regularly benchmarked against actual loss experience. Changes in these assumptions would have a direct impact on the provision for credit losses and may result in a change in the allowance for credit losses.

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies (continued)

c) Classification of lease contracts

The Group acts as a lessor in operating and finance leases. Where the Group, as a lessor, transfers substantially all the risks and rewards incidental to ownership to the lessee, the leases are classified as finance leases. All other leases are classified as operating and related assets are included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether leases should be classified as operating or finance, the Group considers the requirements of International Financial Reporting Standard 16 *Leases*.

d) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about assumptions and estimation uncertainties regarding impairment of goodwill are explained in Note 27.

e) Fair value of financial instruments

If a market for a financial instrument is not active, or, if for any reason, fair value cannot be reasonably measured by market price, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent to the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The chosen valuation techniques are periodically reviewed by an independent expert who has not participated in their formation. All models are certified before use.

f) Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia and other jurisdictions (Slovenia and Bosnia and Hercegovina). Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. Deferred tax assets are recognised only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized.

g) Litigation and claims

The Group makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank or its relevant subsidiaries and in certain cases external lawyers are engaged. As stated in Note 38a the Group and the Bank provided HRK 395 million (2020: HRK 213 million) and HRK 375 million (2020: HRK 197 million) respectively for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient. The above amounts represent the Group's best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Group can be significantly different. It is not practicable for management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

h) Fair value of property and equipment and investment property

The Group uses the revaluation model for property and equipment and fair value model. The criterion of revaluation model requires that the asset have to be amortized on the basis of new revalued value. Investment property at fair value will no longer be amortized.

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies (continued)

i) Foreclosed assets

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the gross carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement.

j) Determination of control over investees

Management applies its judgement to determine whether the Group controls investees. In assessing whether the Group controls the investees, the Group performs the power analysis and takes into consideration purpose and design of the investee, the evidence of practical ability to direct the relevant activities of the investees etc.

As a result, the Group concluded that it does not control and therefore should not consolidate its special purpose vehicles and entities with receivables in default, as the Group does not have power over the relevant activities of those entities.

Notes to the financial statements (continued)

6 Net interest income

a) Interest income – analysis by source

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Retail	1,817	1,936	1,403	1,518
Corporate	662	674	423	435
Public sector and other institutions	277	195	245	164
Banks	(15)	37	10	71
	2,741	2,842	2,081	2,188

b) Interest income – analysis by financial assets category

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Loans and advances to customers	2,613	2,727	1,982	2,098
Investment securities at FVOCI	50	33	40	20
Loans and advances to banks	23	17	10	16
Investment securities at amortized cost	20	18	20	18
Total interest income calculated using the effective interest rate	2,706	2,795	2,052	2,152

	GROUP		BANK	
	2021	2020	2021	2020
Finance lease	38	43	-	-
Financial assets held for trading	31	38	29	36
Financial assets initially designated at fair value through profit or loss	4	2	-	-
Derivatives - hedge accounting	(38)	(36)	-	-
Total other interest income	35	47	29	36

Interest income includes collected interest income from credit impaired loans of the Group of HRK 118 million (2020 impaired: HRK 83 million) and of the Bank of HRK 73 million (2020 impaired: HRK 49 million).

Notes to the financial statements (continued)

6 Net interest income (continued)

c) Interest expense – analysis by recipient

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Banks	112	101	73	78
Retail	64	95	30	46
Corporate	11	16	11	12
Public sector and other institutions	12	14	2	4
	199	226	116	140

d) Interest expense – analysis by product

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Interest-bearing borrowings and other financial liabilities	67	59	30	30
Current accounts and deposits from retail customers	64	95	30	46
Current accounts and deposits from banks	48	46	43	48
Current accounts and deposits from corporate customers and public sector	13	18	6	8
Interest expense on lease liability	7	8	7	8
	199	226	116	140

Notes to the financial statements (continued)

7 Net fee and commission income

a) Fee and commission income

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Credit cards	796	703	237	185
Payment transactions	540	496	432	383
Customer services	219	211	95	106
Investment banking fees	82	85	32	46
Investment management, brokerage and consultancy	54	50	50	46
Guarantees	51	50	34	33
Other	121	111	118	107
	1,863	1,706	998	906

b) Fee and commission expense

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Credit cards	293	246	194	155
Payment transactions	47	43	39	35
Bank charges	16	13	11	8
Other	25	21	10	10
	381	323	254	208

8 Dividend income

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Dividends from subsidiaries	-	-	111	28
Dividends from associates	-	-	10	12
Dividends from other equity securities	1	1	1	-
	1	1	122	40

Notes to the financial statements (continued)

9 Net trading income and net gains on translation of monetary assets and liabilities

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Foreign exchange spot trading	268	245	242	232
Net trading income/(losses) from forward foreign exchange contracts and swaps	58	(4)	63	(8)
Net losses from translation of monetary assets and liabilities denominated in foreign currency	(44)	(11)	(43)	(12)
Net losses on financial assets held for trading	(27)	(21)	(27)	(21)
Net gains from securities initially designated at fair value through profit or loss	5	21	2	13
	260	230	237	204

10 Fair value adjustments in hedge accounting

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Net effect on derivatives used as hedging instruments	121	(85)	3	-
Net effect on hedged items	(120)	75	(3)	-
	1	(10)	-	-

Notes to the financial statements (continued)

11 Other operating income

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Rental income from investment property and assets under operating lease	38	37	1	2
Gain on disposal of property and equipment, intangible assets, investment property, non-current assets held for sale and foreclosed assets	30	21	6	25
Net value adjustments from valuation of investment property	(12)	(2)	(6)	4
Net (loss)/gain on derecognition of financial assets not measured through profit or loss	(2)	32	(2)	14
Net value adjustments from valuation of tangible assets (IAS 16)	1	(15)	1	(5)
Net value adjustments from valuation of non-current assets held for sale	(1)	(15)	-	(13)
Net value adjustments from valuation of foreclosed assets	(1)	(10)	(1)	(7)
Other income	39	29	36	33
	92	77	35	53

Other income includes income from refunded expenses, income from collection services provided to subsidiaries and income from partner ATMs.

Notes to the financial statements (continued)

12 Personnel expenses

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Net salaries	565	564	364	361
Contributions for pension insurance	149	150	100	102
Contributions for health insurance	109	113	79	82
Taxes and surtaxes	89	104	55	68
Other personnel expenses	136	112	86	70
	1,048	1,043	684	683

During the year the average number of employees within the Group based on full-time employment equivalence was 4,879 (2020: 4,634) of which the Bank accounted for 3,331 (2020: 3,142) employees.

13 Other operating expenses

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Materials and services	513	522	399	399
Processing expenses	171	170	64	61
Deposit insurance premium	62	180	31	143
Indirect and other taxes	37	36	32	32
Rental expenses	24	28	-	1
Supervision expenses	27	20	15	10
Other expenses	174	168	51	50
	1,008	1,124	592	696

Other operating expenses for 2021 include fees payable to the auditor of HRK 9 million for the Group and HRK 6 million for the Bank.

Notes to the financial statements (continued)

14 Impairment losses

a) Net impairment losses on loans and advances to customers

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Impairment losses on loans and advances to customers at amortised cost	55	573	(10)	415
	55	573	(10)	415

b) Other impairment losses and provisions

(in HRK million)

	Notes	GROUP		BANK	
		2021	2020	2021	2020
Provisions for court cases	38	216	22	211	26
Provisions for/(release of provisions) off-balance-sheet items	38	43	(15)	42	(12)
Movement in impairment loss on investment securities at amortized cost	47	35	5	36	4
Provisions for other items	38	7	24	4	26
Provisions for CNB		4	-	4	-
Movement in impairment loss on financial assets FVOCI	47	2	4	4	(1)
Movement in impairment losses on other assets	31	1	(1)	-	-
Provision for retirement benefit obligations	38	1	1	-	-
(Release of provisions) for loans and advances to banks	24	-	(3)	-	(3)
		309	37	301	40

15 Depreciation, amortisation and impairment of goodwill

(in HRK million)

	Notes	GROUP		BANK	
		2021	2020	2021	2020
Depreciation and impairment of property and equipment	28	182	169	133	123
Amortisation of intangible assets	27	72	69	52	52
		254	238	185	175

Notes to the financial statements (continued)

16 Income tax expense

a) Income tax expense recognised in the income statement

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Current income tax charge	316	258	243	204
Net deferred tax charge	(4)	9	(7)	13
Income tax expense recognised in the income statement	312	267	236	217

b) Reconciliation of income tax expense

The reconciliation between the accounting profit and income tax expense is set out below:

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Accounting profit before tax	1,715	1,292	1,350	1,034
Tax calculated at rate of 18%	309	233	243	186
Effect of different tax rates in Bosnia and Herzegovina	(12)	(6)	-	-
Effect of different tax rates in Slovenia	1	1	-	-
<i>Tax effects of:</i>				
Non-deductible expenses	13	38	10	23
Expenses/income included directly in income tax expense	9	9	12	15
Tax exempt income	(4)	(8)	(22)	(7)
Total income tax expense	316	267	243	217
Effective income tax rate	18.4%	20.6%	18.0%	21.0%

Notes to the financial statements (continued)

16 Income tax expense (continued)

c) Deferred tax assets

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
<i>Timing differences</i>				
On impairment of loans	36	37	-	-
On unrealised losses on financial assets at fair value through profit or loss	6	16	3	13
On deferred fees	11	13	10	12
On impairment of real estate	8	16	5	12
On other items	75	50	65	39
Deferred tax assets	136	132	83	76

Other items include bonus accruals and litigations provisions.

d) Deferred tax liabilities

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
<i>Timing differences</i>				
On unrealised gains on tangible assets	71	74	31	33
On unrealised gains on financial assets at FVOCI	10	15	-	4
On credit losses	1	8		
Deferred tax liabilities	82	97	31	37

Notes to the financial statements (continued)

16 Income tax expense (continued)

e) Movement in deferred tax assets

(in HRK million)

Group	Total	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Impairment on financial assets at FVOCI	Other items	Impairment of loans
Balance as at 1 January 2021	132	13	16	16	-	50	37
<i>Increase credited to income statement</i>	<i>62</i>	<i>6</i>	<i>1</i>	<i>5</i>	<i>-</i>	<i>50</i>	<i>-</i>
<i>Utilisation charged to income statement</i>	<i>(58)</i>	<i>(8)</i>	<i>(9)</i>	<i>(15)</i>	<i>-</i>	<i>(25)</i>	<i>(1)</i>
Net amount charged to income statement	4	(2)	(8)	(10)	-	25	(1)
Balance as at 31 December 2021	136	11	8	6	-	75	36
Balance as at 1 January 2020	141	15	10	31	-	51	34
<i>Increase credited to income statement</i>	<i>61</i>	<i>7</i>	<i>8</i>	<i>15</i>	<i>-</i>	<i>28</i>	<i>3</i>
<i>Utilisation charged to income statement</i>	<i>(70)</i>	<i>(9)</i>	<i>(2)</i>	<i>(30)</i>	<i>-</i>	<i>(29)</i>	<i>-</i>
Net amount charged to income statement	(9)	(2)	6	(15)	-	(1)	3
Balance as at 31 December 2020	132	13	16	16	-	50	37

Notes to the financial statements (continued)

16 Income tax expense (continued)

e) Movement in deferred tax assets (continued)

(in HRK million)

Bank

	Total	Deferred fees	Impair- ment of real estate	Unreal- ised losses on finan- cial assets at fair value through profit or loss	Other items
Balance as at 1 January 2021	76	12	12	13	39
<i>Increase credited to in- come statement</i>	60	6	-	5	49
<i>Utilisation charged to in- come statement</i>	(53)	(8)	(7)	(15)	(23)
Net amount charged to in- come statement	7	(2)	(7)	(10)	26
Balance as at 31 Decem- ber 2021	83	10	5	3	65
Balance as at 1 January 2020	89	14	9	28	38
<i>Increase credited to in- come statement</i>	54	7	5	15	27
<i>Utilisation charged to in- come statement</i>	(67)	(9)	(2)	(30)	(26)
Net amount charged to in- come statement	(13)	(2)	3	(15)	1
Balance as at 31 Decem- ber 2020	76	12	12	13	39

Notes to the financial statements (continued)

16 Income tax expense (continued)

f) Movement in deferred tax liabilities

Group	(in HRK million)			
	Total	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets	Credit losses
Balance as at 1 January 2021	97	15	74	8
Increase credited to comprehensive income	(9)	(5)	(4)	-
Transfer out of DTL	1	-	1	-
Tax on provisions for credit losses	(7)	-	-	(7)
Balance as at 31 December 2021	82	10	71	1
Balance as at 1 January 2020	80	29	43	8
Increase credited to comprehensive income	29	(2)	31	-
Transfer out of DTL	(12)	(12)	-	-
Balance as at 31 December 2020	97	15	74	8

Bank

	Unrealised gains on financial assets at FVOCI		
	Total	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets
Balance as at 1 January 2021	37	4	33
Increase credited to comprehensive income	(7)	(4)	(3)
Transfer out of DTL	1	-	1
Balance as at 31 December 2021	31	-	31
Balance as at 1 January 2020	33	14	19
Increase credited to comprehensive income	12	(2)	14
Transfer out of DTL	(8)	(8)	-
Balance as at 31 December 2020	37	4	33

Notes to the financial statements (continued)

17 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

Group	(in HRK million)					
	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2021						
Cash and current accounts with banks	-	-	-	-	35,885	35,885
Balances with the Croatian National Bank	-	-	-	-	4,533	4,533
Financial assets held for trading	1,135	-	-	-	-	1,135
Derivative financial assets	43	-	-	-	-	43
Fair value changes of the hedged items in portfolio hedge of interest rate risk	31	-	-	-	-	31
Loans and advances to banks	-	-	-	-	6,230	6,230
Loans and advances to customers	-	-	-	-	78,679	78,679
Investment securities	22	67	9,519	160	1,982	11,750
Total financial assets	1,231	67	9,519	160	127,309	138,286
Current accounts and deposits from banks	-	-	-	-	1,295	1,295
Current accounts and deposits from customers	-	-	-	-	109,980	109,980
Derivative financial liabilities	98	-	-	-	-	98
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	4
Interest-bearing borrowings and other financial liabilities	-	-	-	-	6,972	6,972
Senior non-preferred debt	-	-	-	-	827	827
Total financial liabilities	102	-	-	-	119,074	119,176

Notes to the financial statements (continued)

17 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

Bank	(in HRK million)					
	Man- dato- rily at FVTPL	Desig- nated at FVTPL	FVOCI - debt instru- ments	FVOCI - equity instru- ments	Amor- tised cost	Total carry- ing amount
As at 31 December 2021						
Cash and current accounts with banks	-	-	-	-	27,403	27,403
Balances with the Croatian National Bank	-	-	-	-	4,533	4,533
Financial assets held for trading	1,135	-	-	-	-	1,135
Derivative financial assets	37	-	-	-	-	37
Fair value changes of the hedged items in portfo- lio hedge of interest rate risk	(3)	-	-	-	-	(3)
Loans and advances to banks	-	-	-	-	4,659	4,659
Loans and advances to customers	-	-	-	-	53,835	53,835
Investment securities	17	46	7,429	54	1,958	9,504
Total financial assets	1,186	46	7,429	54	92,388	101,103
Current accounts and de- posits from banks	-	-	-	-	1,911	1,911
Current accounts and de- posits from customers	-	-	-	-	81,112	81,112
Derivative financial liabil- ities	1	-	-	-	-	1
Interest-bearing borrow- ings and other financial liabilities	-	-	-	-	3,597	3,597
Senior non-preferred debt	-	-	-	-	827	827
Total financial liabilities	1	-	-	-	87,447	87,448

Notes to the financial statements (continued)**17 Financial assets and financial liabilities (continued)****Classification of financial assets and financial liabilities (continued)**

Group	(in HRK million)					
	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2020						
Cash and current accounts with banks	-	-	-	-	27,002	27,002
Balances with the Croatian National Bank	-	-	-	-	4,035	4,035
Financial assets held for trading	1,269	-	-	-	-	1,269
Derivative financial assets	2	-	-	-	-	2
Fair value changes of the hedged items in portfolio hedge of interest rate risk	77	-	-	-	-	77
Loans and advances to banks	-	-	-	-	6,404	6,404
Loans and advances to customers	5	-	-	-	75,082	75,087
Investment securities	38	62	10,973	160	445	11,678
Total financial assets	1,391	62	10,973	160	112,968	125,554
Current accounts and deposits from banks	-	-	-	-	1,847	1,847
Current accounts and deposits from customers	-	-	-	-	99,461	99,461
Derivative financial liabilities	237	-	-	-	-	237
Interest-bearing borrowings and other financial liabilities	-	-	-	-	5,628	5,628
Total financial liabilities	237	-	-	-	106,936	107,173

Notes to the financial statements (continued)

17 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

Bank	(in HRK million)					
	Man- dato- rily at FVTPL	Desig- nated at FVTPL	FVOCI - debt instru- ments	FVOCI - equity instru- ments	Amor- tised cost	Total carry- ing amount
As at 31 December 2020						
Cash and current accounts with banks	-	-	-	-	21,425	21,425
Balances with the Croatian National Bank	-	-	-	-	4,035	4,035
Financial assets held for trading	1,269	-	-	-	-	1,269
Derivative financial assets	1	-	-	-	-	1
Loans and advances to banks	-	-	-	-	5,329	5,329
Loans and advances to customers	-	-	-	-	51,170	51,170
Investment securities	31	43	8,687	55	423	9,239
Total financial assets	1,301	43	8,687	55	82,382	92,468
Current accounts and de- posits from banks	-	-	-	-	2,190	2,190
Current accounts and de- posits from customers	-	-	-	-	73,155	73,155
Derivative financial liabil- ities	25	-	-	-	-	25
Interest-bearing borrow- ings and other financial liabilities	-	-	-	-	3,613	3,613
Total financial liabilities	25	-	-	-	78,958	78,983

Notes to the financial statements (continued)

18 Cash and current accounts with banks

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Current accounts with the CNB	23,735	18,796	23,734	18,796
Current accounts with foreign banks	7,406	4,714	1,075	464
Cash in hand	4,732	3,490	2,592	2,163
Current accounts with domestic banks	14	4	4	4
	35,887	27,004	27,405	21,427
Impairment loss allowance	(2)	(2)	(2)	(2)
	35,885	27,002	27,403	21,425

19 Balances with the Croatian National Bank

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Obligatory reserve	4,533	4,035	4,533	4,035
	4,533	4,035	4,533	4,035

The Croatian National Bank determines the requirement for banks to calculate obligatory reserve which is required to be deposited with the CNB and has to be maintained in the form of liquid assets.

The obligatory reserve requirement as on 31 December 2021 was 9% (2020: 9%) of HRK and foreign currency deposits, borrowings, debt securities issued and other financial liabilities.

As on 31 December 2021, the required rate for the HRK denominated part of the obligatory reserve to be deposited with the CNB amounted to 70% (2020: 70%), while the remaining 30% (2020: 30%) had to be maintained in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK.

In 2021, 100% of the foreign currency part of the obligatory reserve was held in the form of other liquid receivables (2020: 100%), with minimum 2% on the EUR settlement account with the Croatian National Bank (2020: 2%). 75% (2020: 75%) of the foreign currency obligatory reserve was required to be held in HRK, and this was added to the HRK portion of the obligatory reserve.

The obligatory reserve did not earn any interest in 2021 (2020: nil).

Notes to the financial statements (continued)

20 Investment securities

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Investment securities measured at FVOCI – debt instruments	9,519	10,973	7,429	8,687
Investment securities measured at amortised cost	1,982	445	1,958	423
Investment securities designated as at FVOCI – equity investments	160	160	54	55
Investment securities mandatorily measured at FVTPL – debt securities	67	62	46	43
Investment securities mandatorily measured at FVTPL – equity securities	22	38	17	31
	11,750	11,678	9,504	9,239

a) Investment securities mandatorily measured at FVTPL

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Equity securities	22	38	17	31
	22	38	17	31

b) Investment securities measured at amortised cost

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Domestic government bonds	1,024	-	1,024	-
Corporate bonds	934	423	934	423
Foreign government bonds	24	22	-	-
	1,982	445	1,958	423

Notes to the financial statements (continued)

20 Investment securities (continued)

c) Investment securities measured at FVOCI – debt instruments

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Domestic government treasury bills	5,376	7,239	5,376	7,239
Domestic government bonds	2,175	1,584	2,053	1,448
Foreign government bonds	1,101	1,649	-	-
Foreign government treasury bills	811	290	-	-
Bank bonds	56	211	-	-
	9,519	10,973	7,429	8,687

d) Investment securities measured at FVOCI – equity investments

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Unlisted securities	158	158	53	53
Listed securities	2	2	1	2
	160	160	54	55

The Group's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns.

In order to comply with the requirement of the National Bank Resolution Fund, Slovenian government bonds in the amount of the HRK 83 million (2020: HRK 85 million) are pledged.

e) Investment securities measured at FVOCI – debt investments

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Corporate bonds	67	62	46	43
	67	62	46	43

Notes to the financial statements (continued)

21 Financial assets held for trading

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Domestic government bonds	1,126	1,259	1,126	1,259
Accrued interest	9	10	9	10
	1,135	1,269	1,135	1,269
<i>Listed securities</i>	<i>1,135</i>	<i>1,269</i>	<i>1,135</i>	<i>1,269</i>
	1,135	1,269	1,135	1,269

22 Derivative financial assets

a) Derivative financial assets classified as held for trading

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
<i>Fair value:</i>				
Forward foreign exchange contracts and swaps	36	2	34	1
	36	2	34	1
<i>Notional amount:</i>				
Forward foreign exchange contracts and swaps	1,270	911	1,152	856
Interest rate contracts	24	26	-	-
	1,294	937	1,152	856

The Group uses foreign currency forward and swap contracts to manage its exposure to foreign currency risk. Interest rate cap derivative contracts are used for the purpose of interest rate risk management.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

Notes to the financial statements (continued)

22 Derivative financial assets (continued)

b) Derivative financial assets held for hedge accounting

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
<i>Fair value:</i>				
Interest rate swaps - macro hedge	7	-	3	-
	7	-	3	-
<i>Notional amount:</i>				
Interest rate swaps - micro hedge	10	-	-	-
Interest rate swaps - macro hedge	1,842	72	1,503	-
	1,852	72	1,503	-

Hedge accounting

As of December 2021, the Bank introduced hedge accounting to manage the interest rate risk in the banking book. Until then, ISP Slovenia was the only Group member applying the hedge accounting. By using derivative financial instruments to hedge exposures to changes in interest rates, Bank also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. Since the IRS falls into derivative class subject to clearing obligation, transactions are cleared by a Central counterparty (CCP).

To reduce the Bank's exposure to changes in the fair values, Bank hedges the positions with fixed interest rate. Since the swap market does not exist for a local HRK currency, only the positions denominated in euro currency are being hedged. Also, only the fair value macro hedge (packages of loans) are currently envisaged to be performed for the Bank. Due to the highest capacity, lower credit risk and prepayment volatility, Bank decided to start with macro hedging the retail mortgage loan portfolio in 2021.

On a Group level, along with macro hedges of retail mortgages, interest rate swaps are also used to hedge its exposure to changes in the fair values of fixed-rate bonds and fixed-rate loans and advances denominated both in EUR and USD currency, on a micro hedge level, by ISP Slovenia. Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship and evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks.

Prospective capacity and efficiency testing are performed before entering a hedging relationship. The Group establishes hedge ratios by aligning the fair value of the fixed-rate loan or bond and the fair value of the interest rate swap designated as a hedging instrument and their fair value sensitivities. The hedges are designed to maintain the ratios within an 80%-125% range.

Notes to the financial statements (continued)**22 Derivative financial assets (continued)****b) Derivative financial assets held for hedge accounting****Impact of IBOR reform**

The Group evaluated the extent to which its fair value hedging relationships are subject to uncertainty driven by IBOR reform at the reporting date. Group's hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly Euribor and US Dollar LIBOR. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

Both for the hedges indexed to Euribor and USD Libor, the Group does not consider there to be material uncertainties related to the timing or amount of cash flows arising from IBOR reform. This is because the reform of Euribor is complete and market participants are allowed to continue to use Euribor after 1 January 2020 for both existing and new contracts and the majority of cashflows related to hedges indexed to USD Libor will mature before the cessation of USD Libor index.

c) Fair value changes of the hedged items in portfolio hedge of interest rate risk

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Fair value changes of the hedged items in portfolio hedge of interest rate risk	31	77	(3)	-
	31	77	(3)	-

Notes to the financial statements (continued)

23 Derivative financial liabilities

a) Derivative financial liabilities classified as held for trading

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
<i>Fair value:</i>				
Forward foreign exchange contracts and swaps	3	27	1	25
	3	27	1	25
<i>Notional amount:</i>				
Forward foreign exchange contracts and swaps	934	1,428	816	1,373
	934	1,428	816	1,373

b) Derivative financial liabilities held for hedge accounting

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
<i>Fair value:</i>				
Interest rate swaps - micro hedge	61	133	-	-
Interest rate swaps - macro hedge	34	77	-	-
	95	210	-	-
<i>Notional amount:</i>				
Interest rate swaps - micro hedge	2,087	2,684	-	-
Interest rate swaps - macro hedge	925	1,054	-	-
	3,012	3,738	-	-

c) Fair value changes of the hedged items in portfolio hedge of interest rate risk

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-
	4	-	-	-

Notes to the financial statements (continued)**24 Loans and advances to banks****a) Analysis by type of product**

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Term deposits and placements	4,916	5,116	4,342	4,951
Obligatory reserve with CBBH	757	734	-	-
Loans	360	382	321	382
Obligatory reserve with BoS	202	177	-	-
	6,235	6,409	4,663	5,333
Impairment loss allowance	(5)	(5)	(4)	(4)
	6,230	6,404	4,659	5,329

Term deposits mainly relate to short-term deposits with local and foreign banks bearing an average annual interest rate in the range of (-2.0%) and 0.6% (2020: in the range of (-1.0%) and 0.8%).

The obligatory reserve with the Bosnia and Herzegovina central bank ("CBBH") represents amounts required to be deposited with CBBH. The obligatory reserve is calculated on the basis of deposits and borrowings taken, regardless of the currency (excluding borrowings taken from foreign entities and funds from governments of Bosnia and Herzegovina entities for development projects).

The obligatory reserve with the Bank of Slovenia ("BoS") represents amounts required to be deposited with Slovenia's central bank. Mandatory reserve is maintained, relative to the volume and structure of customer deposits. The current requirement regarding the calculation of the amount to be held as mandatory reserve is 1% of time deposits and issued debt securities with maturities up to two years.

b) Movement in impairment allowance

(in HRK million)

	Note	GROUP		BANK	
		2021	2020	2021	2020
Balance at 1 January		5	8	4	7
Net remeasurement of loss allowance	14b	-	(3)	-	(3)
Balance at 31 December		5	5	4	4

Notes to the financial statements (continued)

24 Loans and advances to banks (continued)

c) Geographical analysis

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Belgium	1,252	324	1,252	324
Bosnia and Herzegovina	1,100	922	230	188
Germany	1,091	1,681	1,091	1,680
Italy	942	349	266	7
Austria	936	516	936	516
Switzerland	341	455	341	455
Slovenia	243	231	-	-
France	208	501	208	501
Republic of Croatia	78	746	302	982
Great Britain	-	339	-	339
Netherlands	-	246	-	246
Norway	-	74	-	74
Other countries	44	25	37	21
	6,235	6,409	4,663	5,333
Impairment loss allowance	(5)	(5)	(4)	(4)
	6,230	6,404	4,659	5,329

As at 31 December 2021 loans and advances to banks included reverse repurchase agreements in the amount of HRK 32 million for the Group and for the Bank (2020: HRK 246 million for the Group and for the Bank). Such agreements are secured with government bonds and treasury bills. For details on sale and repurchase agreements please refer to Note 47(a).

Notes to the financial statements (continued)

25 Loans and advances to customers

a) Analysis by type of customer

<i>Loans and advances to customers at amortized cost</i>	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Retail customers	41,932	41,010	29,295	28,968
Corporate customers	28,232	26,916	16,614	15,780
Public sector and other institutions	11,553	10,865	10,087	9,151
	81,717	78,791	55,996	53,899
Impairment allowance	(2,949)	(3,607)	(2,117)	(2,675)
Modification	1	-	-	-
Loans and advances to customers net of impairment allowance	78,769	75,184	53,879	51,224
Deferred fees recognised as an adjustment to the effective yield	(90)	(102)	(44)	(54)
	78,679	75,082	53,835	51,170

<i>Loans and advances to customers at fair value through profit and loss</i>	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Corporate customers	-	5	-	-
	-	5	-	-

Notes to the financial statements (continued)

25 Loans and advances to customers (continued)

b) Analysis by sector

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Individuals	41,932	41,010	29,295	28,968
Construction	6,391	6,426	5,966	6,050
Public administration and defence; compulsory social security	6,069	5,579	4,602	4,524
Manufacturing	5,913	5,091	3,187	2,710
Wholesale and retail trade; repair of motor vehicles and motorcycles	4,854	5,223	2,103	2,396
Electricity, gas, steam and air conditioning supply	3,659	2,739	2,335	1,562
Transporting and storage	3,174	3,291	1,044	1,045
Accommodation and food service activities	2,539	2,830	2,210	2,481
Real estate activities	1,499	1,126	1,236	887
Professional, scientific and technical activities	1,011	961	584	561
Agriculture, forestry and fishing	866	808	735	690
Financial and insurance activities	946	670	1,296	507
Information and communication	830	614	207	191
Administrative and support service activities	478	661	143	157
Human health and social work activities	365	377	271	261
Arts, entertainment and recreation	286	285	246	235
Water supply; sewerage; waste management and remediation activities	233	304	140	162
Education	230	292	191	242
Other services activities	224	221	84	110
Mining and quarrying	190	219	93	91
Activities of extraterritorial organisations and bodies	28	69	28	69
	81,717	78,796	55,996	53,899

Loans and advances to customers also include finance lease receivables. For a more detailed analysis of finance lease receivables please refer to Note 43 *Leases*.

Notes to the financial statements (continued)**25 Loans and advances to customers (continued)****c) Collateral repossessed**

During the year, the Group foreclosed on assets previously charged to them as collateral, and thereby recognised foreclosed assets with a carrying value of HRK 19 million and nil for the Bank (2020: HRK 0.3 million Group and HRK nil for the Bank). The repossessed collateral, which the Group is in the process of selling, is disclosed as foreclosed assets within Other assets (Note 31). In general, the Group does not occupy repossessed properties for business use.

d) Sale of receivables

In 2021, the Group sold HRK 838 million gross receivable (HRK 205 million net receivable) to a third party for HRK 416 million and the Bank sold HRK 631 million gross receivables (HRK 144 million net receivable) for HRK 335 million. In 2020, the Group sold HRK 372 million gross receivable (HRK 123 million net receivable) to a third party for HRK 193 million and the Bank sold HRK 298 million gross receivables (HRK 91 million net receivable) for HRK 160 million.

26 Investments in subsidiaries and associates

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Consolidated subsidiaries	-	-	1,934	1,934
Associates accounted for under the equity method by the Group and at cost by the Bank	66	65	28	28
	66	65	1,962	1,962
Movements				
Balance at 1 January	65	67	1,962	1,962
Share of profits from associates	11	10	-	-
Receipt of dividend	(10)	(12)	-	-
Balance at 31 December	66	65	1,962	1,962

Notes to the financial statements (continued)**26 Investments in subsidiaries and associates (continued)**

The principal investments in subsidiaries and associates as at 31 December are as follows:

					2021	2020
	Residence	Identification number	ID number	Nature of bus- siness	holding %	
CONSOLIDATED SUBSIDI- ARIES						
PBZ Card d.o.o.	Croatia, Za- greb, Radnička cesta 44	80258649	28495895537	card ser- vices	100	100
PBZ Leas- ing d.o.o.	Croatia, Za- greb, Radnička cesta 44	3796540	57270798205	leasing	100	100
PBZ Stam- bena Štedi- onica d.d.	Croatia, Za- greb, Radnička cesta 44	1702785	28857005625	housing savings bank	100	100
Intesa Sanpaol o Banka d.d.	Bosnia and Herze- govina, Sa- rajevo, Obala Kul- ina bana 9a	6502000911	49307371766	credit institu- tion	99	99
Banka In- tesa Sanpaol o d.d.	Slovenia, Koper, Pristaniška ulica 14	5092221000	74655065389	credit institu- tion	51	51
ASSOCI- ATES						
PBZ Croatia osig- uranje d.d.	Croatia, Za- greb, Radnička cesta 44	8046496	20455535575	pension man- age- ment	50	50

Notes to the financial statements (continued)

26 Investments in subsidiaries and associates (continued)

The Group considers that its 50% investment in PBZ Croatia osiguranje dd represent investment in associates (31 December 2020: 50% investment in PBZ Croatia osiguranje) as the Group does not have control over the company . Consequently, PBZ Croatia osiguranje dd is accounted for using the equity method in the consolidated financial statements

The following table illustrates summarised financial information of the PBZ Croatia osiguranje d.d.:

	(in HRK million)	
PBZ Croatia osiguranje	2021	2020
Associates' statement of financial position		
Current assets	139	136
Non-current assets	1	1
Current liabilities	(6)	(4)
Non-current liabilities	(3)	(3)
Net assets of associates'	131	130
Attributable to PBZ Group	66	65
Associates' income statements		
Revenue	71	66
Expenses	(50)	(47)
Profit	21	19
Attributable to PBZ Group	11	10

Involvement in unconsolidated structured entities

The Group is involved in financing several special purpose entities that carry out various activities, such as real estate construction, tourism, etc. The Group concluded that it does not control, and therefore should not consolidate, the special purpose entities and its involvement is in all cases limited to providing finance with aim of collecting interest. Taken as a whole, the Group does not have power over the relevant activities of those entities.

Notes to the financial statements (continued)

27 Intangible assets

(in HRK million)

Group

	Goodwill	Software	Other in- tangible as- sets	Leasehold improve- ments	Assets ac- quired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2020	14	1,046	49	304	108	1,521
Additions	-	-	-	-	91	91
Transfer into use	-	103	1	13	(117)	-
Disposals and elimina- tions	-	(127)	-	(16)	-	(143)
Translation differences in respect of foreign op- erations	-	1	-	-	-	1
Balance at 31 December 2020	14	1,023	50	301	82	1,470
Additions	-	-	-	-	129	129
Transfer into use	-	80	1	6	(87)	-
Disposals and elimina- tions	-	(8)	(7)	(30)	-	(45)
Reclassification to tangi- ble assets	-	(3)	-	-	-	(3)
Translation differences in respect of foreign op- erations	-	(1)	-	-	-	(1)
Balance at 31 December 2021	14	1,091	44	277	124	1,550

Notes to the financial statements (continued)

27 Intangible assets

(in HRK million)

Group	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	Total
Accumulated amortisation						
Balance at 1 January 2020	-	844	42	268	-	1,154
Charge for the year	-	58	3	8	-	69
Disposals and eliminations	-	(56)	-	(15)	-	(71)
Translation differences in respect of foreign operations	-	1	-	-	-	1
Balance at 31 December 2020	-	847	45	261	-	1,153
Charge for the year	-	60	3	9	-	72
Disposals and eliminations	-	(7)	(7)	(30)	-	(44)
Reclassification to tangible assets	-	(1)	-	-	-	(1)
Balance at 31 December 2021	-	899	41	240	-	1,180
Carrying value						
Balance at 31 December 2020	14	176	5	40	82	317
Balance at 31 December 2021	14	192	3	37	124	370

Goodwill represents goodwill arising from the acquisition of Međimurska banka in the amount of HRK 14 million (2020: HRK 14 million), recognised as a purchased goodwill following the merger of Međimurska banka into Privredna banka Zagreb d.d. as at 1 December 2012.

Notes to the financial statements (continued)

27 Intangible assets (continued)

(in HRK million)

Bank

	Goodwill	Software	Other in- tangible assets	Leasehold improve- ments	Assets ac- quired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2020	14	808	2	257	57	1,138
Additions	-	-	-	-	66	66
Disposals	-	(127)	-	(15)	-	(142)
Transfer into use	-	68	-	13	(81)	-
Balance at 31 December 2020	14	749	2	255	42	1,062
Additions	-	-	-	-	100	100
Transfer into use	-	47	-	4	(51)	-
Disposals	-	(4)	-	(29)	-	(33)
Reclassification to tangi- ble assets	-	(3)	-	-	-	(3)
Balance at 31 December 2021	14	789	2	230	91	1,126

Notes to the financial statements (continued)**27 Intangible assets (continued)**

(in HRK million)

Bank	Goodwill	Software	Other in- tangible assets	Leasehold improve- ments	Assets ac- quired but not brought into use	Total
Accumulated amortisa- tion						
Balance at 1 January 2020	-	633	2	239	-	874
Charge for the year	-	45	-	7	-	52
Disposals	-	(55)	-	(15)	-	(70)
Balance at 31 December 2020	-	623	2	231	-	856
Charge for the year	-	45	-	7	-	52
Disposals	-	(4)	-	(29)	-	(33)
Reclassification to tangi- ble assets	-	(1)	-	-	-	(1)
Balance at 31 December 2021	-	663	2	209	-	874
Carrying value						
Balance at 31 December 2020	14	126	-	24	42	206
Balance at 31 December 2021	14	126	-	21	91	252

Following the legal merger of Međimurska banka into the Bank as at 1 December 2012, the goodwill formerly arising on consolidation of Međimurska banka was transferred into purchased goodwill and recognised in the Bank's separate statement of financial position.

The Group capitalised HRK 23 million (2020: HRK 25.4 million) and the Bank HRK 17.5 million (2020: HRK 15.3 million) of internal costs for software development.

Notes to the financial statements (continued)

28 Property and equipment

Group	(in HRK million)					Total
	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	
Acquisition cost						
Balance at 1 January 2020	1,396	587	108	564	33	2,688
Additions	-	-	-	-	168	168
Transfer into use	115	34	15	22	(186)	-
Disposals	(68)	(17)	(19)	(29)	-	(133)
Application of revaluation model: Fair value gain	170	-	-	-	-	170
Reclassified to investment property	(10)	-	-	-	-	(10)
Reclassified from foreclosed assets	51	-	-	-	-	51
Translation differences in respect of foreign operations	5	1	-	1	-	7
Balance at 31 December 2020	1,659	605	104	558	15	2,941
Additions	-	-	-	-	227	227
Transfer into use	73	27	12	80	(192)	-
Disposals	(26)	(37)	(31)	(87)	-	(181)
Reclassified to non-current assets held for sale	(3)	-	-	-	-	(3)
Reclassified from non-current assets held for sale	1	-	-	-	-	1
Reclassified from tangible assets	-	3	-	-	-	3
Reclassified to foreclosed assets	(17)	-	-	-	-	(17)
Application of revaluation model: Fair value gain	(4)	-	-	-	-	(4)
Translation differences in respect of foreign operations	(1)	-	-	-	-	(1)
Balance at 31 December 2021	1,682	598	85	551	50	2,966

Notes to the financial statements (continued)

28 Property and equipment

(in HRK million)

Group	Land and build- ings	Furni- ture and other equip- ment	Motor vehi- cles	Com- puter equip- ment	Assets ac- quired but not brough t into use	Total
Accumulated depreciation						
Balance at 1 January 2020	79	526	43	409	-	1,057
Charge for the year	93	20	16	40	-	169
Impairment	15	-	-	-	-	15
Disposals	(44)	(17)	(14)	(18)	-	(93)
Translation differences in respect of foreign operations	1	1	-	1	-	3
Balance at 31 December 2020	144	530	45	432	-	1,151
Charge for the year	101	24	14	43	-	182
Disposals	(4)	(36)	(23)	(86)	-	(149)
Reversal of impairment	(1)	-	-	-	-	(1)
Reclassified from non-current as- sets held for sale	1	-	-	-	-	1
Reclassified from tangible assets	-	1	-	-	-	1
Reclassified to foreclosed assets	(10)	-	-	-	-	(10)
Balance at 31 December 2021	231	519	36	389	-	1,175
Carrying value						
Balance at 31 December 2020	1,515	75	59	126	15	1,790
Balance at 31 December 2021	1,451	79	49	162	50	1,791

Notes to the financial statements (continued)

28 Property and equipment (continued)

(in HRK million)

Bank

	Land and buildings	Furniture and other equipment	Motor ve- hicles	Com- puter equip- ment	Assets ac- quired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2020	833	439	8	426	31	1,737
Additions	-	-	-	-	137	137
Transfer into use	106	30	5	18	(159)	-
Disposals	(33)	(14)	(1)	(29)	-	(77)
Application of revaluation model: Fair value gain	83	-	-	-	-	83
Balance at 31 December 2020	989	455	12	415	9	1,880
Additions	-	-	-	-	193	193
Transfer into use	60	23	1	70	(154)	-
Disposals	(13)	(32)	(1)	(82)	-	(128)
Reclassified to non-current as- sets held for sale	(3)	-	-	-	-	(3)
Reclassified from tangible as- sets	-	3	-	-	-	3
Balance at 31 December 2021	1,033	449	12	403	48	1,945

Notes to the financial statements (continued)**28 Property and equipment (continued)**

(in HRK million)

Bank

	Land and buildings	Furniture and other equipment	Motor ve- hicles	Com- puter equip- ment	Assets ac- quired but not brought into use	Total
Accumulated depreciation						
Balance at 1 January 2020	78	395	2	287	-	762
Charge for the year	73	15	2	33	-	123
Impairment	5	-	-	-	-	5
Disposals	(11)	(14)	(1)	(17)	-	(43)
Balance at 31 December 2020	145	396	3	303	-	847
Charge for the year	77	18	2	36	-	133
Disposals	-	(31)	-	(82)	-	(113)
Reversal of impairment	(1)	-	-	-	-	(1)
Reclassified from tangible as- sets	-	1	-	-	-	1
Balance at 31 December 2021	221	384	5	257	-	867
Carrying value						
Balance at 31 December 2020	844	59	9	112	9	1,033
Balance at 31 December 2021	812	65	7	146	48	1,078

As of 31 December 2020, the Group's Land and buildings were revalued into their fair value based on the valuation of independent expert. The valuation, which confirms to International Valuation Standards, was performed by independent real estate appraiser CBRE and was determined by reference to model discounted cash flow method. Current market conditions were used as assumptions for the valuations performed.

Notes to the financial statements (continued)

29 Investment property

	(in HRK million)	
	GROUP	BANK
Acquisition cost		
Balance at 1 January 2020	63	2
Disposals	(9)	-
Fair value adjustment	(2)	4
	24	24
Reclassified from non-current assets held for sale	10	-
Balance at 31 December 2020	86	30
Fair value adjustment	(12)	(6)
Balance at 31 December 2021	74	24
Carrying value		
Balance at 31 December 2020	86	30
Balance at 31 December 2021	74	24

The property rental income earned by the Group and the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 7 million (2020: HRK 8 million) and HRK 0.2 million for the Bank (2020: HRK 0.4 million) was presented within other operating income (Note 11).

30 Non-current assets held for sale

At 31 December 2021, the non-current assets held for sale was stated at lower of their carrying amount and fair value less cost to sell and comprised the following assets:

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Property and equipment	-	4	-	2
Investment property	22	52	8	9
Foreclosed assets	1	9	-	2
	23	65	8	13

Impairment loss in the amount of HRK 21 million for the Group and HRK 13 million for the Bank was recognized in 2020.

Notes to the financial statements (continued)

31 Other assets

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Prepaid expenses	83	83	63	69
Foreclosed assets	61	98	7	29
Receivables in course of collection	11	14	1	5
Advance payments	7	18	1	1
Receivables from tax authority (except income tax)	7	3	-	-
Other assets	66	93	49	42
	235	309	121	146
Impairment	(29)	(48)	(2)	(17)
	206	261	119	129

Movement in impairment

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Balance at 1 January	48	23	17	13
Net charge/(release)/ for the year	1	(1)	-	-
Fair value adjustment of foreclosed assets	1	10	1	7
Disposals	(4)	(3)	-	(3)
Transfer from non-current assets held for sale	-	19	-	-
Transfer to non-current assets held for sale	(17)	-	(16)	-
Balance at 31 December	29	48	2	17

Movement in impairment on other assets is presented as part of Provisions for other items and other assets (Note 14b).

Notes to the financial statements (continued)

32 Current accounts and deposits from banks

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Demand deposits	1,139	1,147	1,254	1,191
Term deposits	156	700	657	999
	1,295	1,847	1,911	2,190

33 Current accounts and deposits from customers

a) Analysis by term

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Demand deposits	86,081	74,210	62,896	54,117
Term deposits	23,899	25,251	18,216	19,038
	109,980	99,461	81,112	73,155

b) Analysis by source

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Retail deposits	73,544	66,404	54,519	48,596
Corporate deposits	27,337	24,116	19,424	17,337
Public sector and other institutions	9,099	8,941	7,169	7,222
	109,980	99,461	81,112	73,155

Notes to the financial statements (continued)

34 Interest-bearing borrowings and other financial liabilities

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Domestic borrowings	2,898	2,914	2,787	2,812
Foreign borrowings	3,779	2,416	489	470
Lease liabilities	279	262	306	318
Other financial liabilities	21	19	21	19
Accrued fee	(5)	17	(6)	(6)
	6,972	5,628	3,597	3,613

a) Foreign borrowings

Foreign borrowings of the Group include short-term and long-term loans received from foreign banks and non-financial institutions denominated mostly in EUR and BAM and with floating interest rates.

b) Domestic borrowings

Domestic borrowings of the Group mainly consist of loans received from the Croatian Bank for Reconstruction and Development (“HBOR”) in the amount of HRK 1.8 billion (2020: HRK 1.8 billion) and Croatian National Bank in the amount of HRK 1 billion (2020: HRK 1 billion)

In accordance with the overall agreement, borrowings from HBOR are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

The Group has not had any defaults of principal, interest or other breaches with regard to any liabilities during 2021 or 2020.

35 Senior non-preferred debt

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Senior non-preferred debt	827	-	827	-
	827	-	827	-

Notes to the financial statements (continued)

36 Other liabilities

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Credit card payables and other payables	872	715	48	36
Items in the course of settlement and other liabilities	710	761	571	629
Salaries and other personnel costs	140	134	95	97
	1,722	1,610	714	762

37 Accrued expenses and deferred income

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Accrued expenses	237	200	139	100
Deferred income	81	65	9	11
	318	265	148	111

Notes to the financial statements (continued)

38 Provisions

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Provisions for liabilities and charges	714	531	665	480
Retirement benefit obligations	23	22	-	-
	737	553	665	480

a) Provisions for liabilities and charges

Group	(in HRK million)			
	Total	Provi- sions for off-bal- ance- sheet items	Provi- sions for court cases	Provi- sions for other items
Balance as at 1 January 2021	531	219	213	99
Net charge in the income statement	266	43	216	7
Transfer from other liabilities	21	-	-	21
Provisions used during the year	(92)	-	(34)	(58)
Exchange differences	(12)	(12)	-	-
Balance as at 31 December 2021	714	250	395	69
Balance as at 1 January 2020	517	234	201	82
Net (release)/charge in the income statement	31	(15)	22	24
Transfer from other liabilities	28	-	-	28
Provisions used during the year	(45)	-	(10)	(35)
Balance as at 31 December 2020	531	219	213	99

Notes to the financial statements (continued)**38 Provisions (continued)****a) Provisions for liabilities and charges (continued)**

(in HRK million)

Bank	Total	Provi- sions for off-bal- ance- sheet items	Provi- sions for court cases	Provi- sions for other items
Balance as at 1 January 2021	480	197	197	86
Net charge in the income statement	257	42	211	4
Transfer from other liabilities	21	-	-	21
Provisions used during the year	(81)	-	(33)	(48)
Exchange differences	(12)	(12)	-	-
Balance as at 31 December 2021	665	227	375	63
Balance as at 1 January 2020	445	209	179	57
Net charge/(release) in the income statement	40	(12)	26	26
Transfer from other liabilities	28	-	-	28
Provisions used during the year	(33)	-	(8)	(25)
Balance as at 31 December 2020	480	197	197	86

Provisions for other items include termination indemnities, deferred bonuses and other.

Provisions for off-balance-sheet items, court cases and other items are recognised in other impairment losses and provisions in the income statement (Note 14b).

Provision for off-balance-sheet items relates to specific and collective impairment provisions on credit-related contingencies as disclosed in Note 39.

As at 31 December 2021 there were several litigation cases taken against the Group. In the opinion of management, there is a probability that the Group may lose certain cases, in respect of which management has recognised provisions for court cases as at 31 December 2021 in the amount of HRK 395 million (31 December 2020: HRK 213 million) for the Group and HRK 375 million (31 December 2020: HRK 197 million), for the Bank, respectively.

The Bank and seven other large Croatian banks were jointly sued by the plaintiff CONSUMER - Croatian Union of the Consumer Protection Associations, which claimed that the defendants engaged in an unfair practice by allegedly using unfair contractual provisions on variable interest rate changed unilaterally by the banks and by linking payments in local currency to Swiss franc, without (allegedly) appropriately informing the consumers of all the risks prior to entering into a loan agreement. In September 2019 the Supreme Court of the Republic of Croatia rendered a ruling in the collective action proceedings, rejecting the appeals on points of law filed by the sued banks against the High Commercial Court ruling from 2018 and confirming the position of courts of lower instance that banks had breached collective interests and rights of consumers by incorporating unfair and null and void provisions on CHF currency clause. The opinion of the Bank's legal counsel is that the claim does not have meritorious grounds and the Bank filed an appeal against the decision reached by the Supreme Court of the Republic of Croatia, which has been rejected at the beginning of 2021.

Notes to the financial statements (continued)

38 Provisions (continued)

a) Provisions for liabilities and charges (continued)

In March 2020, the Croatian Supreme Court, within a “model case” proceedings ruled that the conversion agreements concluded between banks and borrowers under the Croatian Conversion Law of 2015 produce legal effects and are valid even in the case when the provisions of the underlying loan agreements on variable interest rate and currency clause are null and void. In connection with the mentioned proceedings for the protection of collective interests of consumers, numerous individual proceedings have been brought by clients against the Bank despite the fact that most of them voluntarily accepted the offer to convert their CHF loans into EUR denominated loans retroactively in line with the Act on the Amendments to the Consumer Credit Act (Official Gazette 102/2015).

In 2021 the number of such individual lawsuits filed against the Bank increased, anyhow at the end of 2021 the total pending cases still amounted to a few thousand. It cannot be excluded the possibility that additional lawsuits might be filed against the Bank in the future in connection with CHF loans.

Further developments in relation to the litigations related to the CHF loans could be influenced by the ECJ’s Preliminary ruling based on the request filed by the Municipal Civil Court Zagreb on 29th October 2020 (case No. C-567/20).

The management of the Bank is reasonably confident that the amount of provisions recognized as at 31 December 2021 is adequate – according to available information - to meet the obligations arising from the claims filed so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

The provisions for mentioned proceedings are not disclosed, due to the possibility that such disclosure might adversely influence the Bank’s position in the active legal disputes. The management of the Bank deems that the provisions are adequately calculated.

Notes to the financial statements (continued)

38 Provisions (continued)

b) Retirement benefit obligation

Group	(in HRK million)
	Retirement benefit obli- gations
Balance as at 1 January 2021	22
Net charge in the income statement	1
Balance as at 31 December 2021	23
Balance as at 1 January 2020	22
Net charge in the income statement	1
Provisions used during the year	(1)
Balance as at 31 December 2020	22

The defined benefit scheme liabilities are measured on an actuarial basis using the book reserve method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise. Under IAS 19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high quality 15-years corporate bonds that are denominated in the currency in which the benefits will be paid by the employer. For the calculation of actuarial gains and losses, the following assumptions have been used:

- The discount rate of 0.94% (2020: 1.09%), and
- Future salary increases of 2.5% p.a. from 2020 onwards (2020: 2.5%).

Notes to the financial statements (continued)**39 Contingent liabilities and commitments****Credit-related contingencies and commitments**

Credit-related contingencies and commitments arise from various banking products, the primary purpose of which is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw funds on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly lower risk. Management has assessed that a provision of HRK 250 million for the Group and HRK 227 million for the Bank (2020: HRK 219 million and HRK 197 million respectively) is sufficient to cover risks due to the default of the respective counterparties (refer to Note 47a).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were as follows:

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Undrawn lending commitments	18,928	18,034	14,432	14,033
Performance guarantees	2,703	2,691	2,274	1,954
Kuna payment guarantees	462	432	455	433
Foreign currency payment guarantees	1,828	1,110	866	827
Foreign currency letters of credit	115	134	95	106
	24,036	22,401	18,122	17,353

Notes to the financial statements (continued)

40 Share capital

a) Issued share capital

Issued share capital as at 31 December 2021 amounted to HRK 1,907 million (31 December 2020: HRK 1,907 million). The total number of authorised registered shares at 31 December 2021 was 19,074,769 (2020: 19,074,769) with a nominal value of HRK 100 per share (2020: HRK 100 per share). The parent company of the Bank is Intesa Sanpaolo Holding International and the ultimate controlling party is Intesa Sanpaolo S.p.A. Financial reports of the parent company are available on web page group.intesasanpaolo.com/en/investor-relations/financial-reports.

The ownership structure as at 31 December 2021 and 31 December 2020 was as follows:

	31 December 2021		31 December 2020	
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	18,591,522	97.5%	18,591,522	97.5%
Non-controlling shareholders	174,225	0.9%	425,534	2.2%
Treasury shares	309,022	1.6%	57,713	0.3%
	19,074,769	100.0%	19,074,769	100.0%

Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

On 26 April 2021, General Assembly of the Bank reached a decision to withdraw from listing on the regulated market Zagreb Stock Exchange, all the listed shares, namely 19,074,769 ordinary shares with a nominal value of HRK 100.00, issued in dematerialised form and deposited in the Central Depository and Clearing Company Inc. under ticker PBZ-R-A. Bank's shares were delisted from regulated market Zagreb Stock Exchange on 7 May 2021.

As at 31 December 2020 the share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 840.

Shares held by president of the Management Board, deputy president of the Management Board and other members of the Management Board is presented in the table below.

	(number of shares)	
	31 December 2021	31 December 2020
Dinko Lucić	1,501	483
Alessio Cioni	1,205	442
Ivan Gerovac	-	529
Andrea Pavlović	419	173
Draženko Kopljar	1,094	517
Darko Drozdek	-	320
Ivan Krolo	-	248

Notes to the financial statements (continued)

40 Share capital

b) Share premium

The Bank recognises share premium in an amount of HRK 1,570 million (31 December 2020: HRK 1,570 million) representing the excess of the paid-in amount over the nominal value of the issued shares.

c) Treasury shares

During 2021 and 2020 the treasury shares were used for remuneration of key employees of the Group.

Due to the Decision to withdraw from listing on the regulated market Zagreb Stock Exchange, the Bank bought out shares, at a fair price (832.45 HRK), from all the Bank's shareholders who voted, at the Annual General Meeting against the Decision on the withdrawal of shares and who required from the Bank, that the Bank takes over their shares. During the delisting process the Bank redeemed in total 263,632 of own shares.

d) Own shares held as collateral

The Bank holds 2,021 (31 December 2020: 2,405) of its own shares as collateral for loans to third parties.

e) Other reserves

Other reserves comprise legal, capital gains and treasury shares reserves.

Legal reserve

As required by the Companies Act, companies in Croatia are required to appropriate 5% of their annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital.

Capital gains

Capital gain is a result of transactions with treasury shares of the Bank in previous periods.

Treasury share reserve

In 2021 the Bank reallocated 173.6 million HRK of its retained earnings to the treasury shares reserve. Treasury shares reserve as of 31 Dec 2021 amounts to 273.6 million HRK (including the 100 million HRK of treasury shares reserves from previous years). During 2020 the Bank did not purchase any treasury shares on the open market for its own purposes.

Translation reserves

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As at 31 December 2021 translation reserve amounted to HRK 27million (2020: HRK 21 million) for the Group.

Other revaluation reserves

Other revaluation reserves include valuation reserve of tangible assets due to the change in the accounting criteria in the year 2017 for the disclosure and measurement of functional and investment property. The valuation reserve of tangible assets in 2021 amounts to HRK 320 million for the Group (2020: HRK 326 million) and HRK 157 million for the Bank (2020: HRK 161 million).

Other reserves

The amount of other reserves for the Group includes Statutory reserves of Intesa Sanpaolo bank dd Slovenia which the Intesa Sanpaolo Bank dd Slovenia according to its Statute, creates until they achieve an amount which is fifteen times that of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered is allocated to statutory reserve.

Notes to the financial statements (continued)

40 Share capital

f) Fair value reserve

Fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets measured at fair value through other comprehensive income, net of income tax.

g) Retained earnings

Retained profits are generally available to shareholders, subject to their approval.

During 2021 in respect to 2020 dividend was proposed. The amount of dividends distributed to equity holders during 2021 in respect of 2020 is HRK 43.53 per share. During 2020 in respect to 2019 dividend from retained earnings was not proposed.

h) Non-controlling interest

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. NCI in the amount of HRK 1,203 million (2020: HRK 1,169 million) relate to Banka Intesa Sanpaolo Slovenia and Intesa Sanpaolo Banka Bosnia and Herzegovina.

Notes to the financial statements (continued)

41 Cash and cash equivalents

The table below presents an analysis of cash and cash equivalents for the purposes of the cash flows statement:

(in HRK million)

	<i>Note</i>	GROUP		BANK	
		2021	2020	2021	2020
Cash and current accounts with banks	18	35,885	27,002	27,403	21,425
Loans and advances to banks with maturity of up to 90 days		4,109	4,875	4,152	4,920
		39,994	31,877	31,555	26,345

42 Managed funds for and on behalf of third parties

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Assets under custody - investment funds	51,375	9,106	44,278	3,796
Assets under custody	8,522	6,698	8,522	6,698
Assets under portfolio management	247	73	121	73
	60,144	15,877	52,921	10,567

The Group and the Bank provide custody services to banks and customers, including investment and pension funds. These assets are accounted for separately from those of the Group and kept off-balance sheet. The Group is compensated for its services by fees chargeable to the clients.

Funds under management in the obligatory pension fund managed by the Bank's associate PBZ Croatia osiguranje dd amount to HRK 23,479 million as at 31 December 2021 (31 December 2020: HRK 20,559 million). These funds are held by a custody bank which is not a member of the Group.

Fees earned from custody services, assets under management in investment funds and portfolio management amounted to HRK 19 million for the Group and HRK 14 million for the Bank (2020: HRK 15 million for the Group and HRK 9 million for the Bank).

Notes to the financial statements (continued)

43 Leases

a) Leases as lessor

PBZ Leasing doo and Banka Intesa Sanpaolo d.d., both members of the PBZ Group, are engaged in providing finance and operating lease arrangements to its clients of various items of vehicles, vessels, real estate and equipment in its capacity of a lessor. Net investment in finance leases as at 31 December 2021 amounted to HRK 1,109 million (31 December 2020: HRK 1,150 million) which is included within loans and advances to customers (Note 25) in the Group financial statements.

The carrying value of leased property and equipment under operating lease as at 31 December 2021 amounted to HRK 383 million (31 December 2020: HRK 354 million) and are classified within property and equipment (Note 28).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

Finance leases under IFRS 16

	(in HRK million)	
	2021	2020
Less than one year	458	473
Between one and two years	286	289
Between two and three years	204	210
Between three and four years	119	118
Between four and five years	61	60
More than five years	24	49
Gross investment in finance lease	1,152	1,199
Unearned finance income	(43)	(49)
Net investment in finance leasee	1,109	1,150

Operating leases under IFRS 16

	(in HRK million)	
	2021	2020
Less than one year	35	43
Between one and two years	29	36
Between two and three years	24	27
Between three and four years	21	22
Between four and five years	20	20
More than five years	55	69
Total	184	217

Notes to the financial statements (continued)**43 Leases (continued)****b) Leases as lessee**

The Group and the Bank leases a number of office premises. The leases typically run for a period of 3 to five years with the option to renew the lease after that time.

The Group and the Bank also lease IT equipment. These leases are short-term and/or leases of low value items. The Group and the Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Group and the Bank are leasee is presented below:

Right-of-use

Group	(in HRK million)					Total
	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	
Balance at 1 January 2021	225	2	9	48	-	284
Depreciation charge of the year	(66)	(1)	(3)	(11)	-	(81)
Additions	61	-	1	12	-	74
Disposals	(4)	-	(1)	-	-	(5)
Balance at 31 December 2021	216	1	6	49	-	272
Balance at 1 January 2020	207	2	6	68	-	283
Depreciation charge of the year	(49)	-	3	(12)	-	(58)
Additions	88	-	1	3	-	92
Disposals	(21)	-	(1)	(11)	-	(33)
Balance at 31 December 2020	225	2	9	48	-	284

Bank	(in HRK million)					Total
	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	
Balance at 1 January 2021	253	2	8	48	-	311
Depreciation charge of the year	(56)	(1)	(2)	(11)	-	(70)
Additions	52	-	1	12	-	65
Disposals	(12)	-	(1)	-	-	(13)
Balance at 31 December 2021	237	1	6	49	-	293
Balance at 1 January 2020	235	2	6	70	-	313
Depreciation charge of the year	(54)	-	(2)	(12)	-	(68)
Additions	93	-	4	2	-	99
Disposals	(21)	-	-	(12)	-	(33)
Balance at 31 December 2020	253	2	8	48	-	311

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

Maturity analysis - Contractual undiscounted cash flows

(in HRK million)

Group	Land and	Furniture and	Motor vehi-	Computer	Total
	buildings	other equip- ment	cles	equipment	
Less than one year	61	1	3	12	77
Between one and five years	142	-	4	32	177
More than five years	35	1	-	1	37
Balance at 31 December 2021	238	2	7	45	291
Less than one year	53	-	5	12	70
Between one and five years	142	-	5	35	182
More than five years	27	-	-	5	32
Balance at 31 December 2020	222	-	10	52	284

(in HRK million)

Bank	Land and	Furniture	Motor vehi-	Computer	Total
	buildings	and other equipment	cles	equipment	
Less than one year	56	1	3	12	72
Between one and five years	157	-	3	32	192
More than five years	53	-	-	1	54
Balance at 31 December 2021	266	1	6	45	318
Less than one year	55	1	3	12	71
Between one and five years	154	1	6	35	196
More than five years	69	-	-	5	74
Balance at 31 December 2020	278	2	9	52	341

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

Amounts recognised in profit or loss

- under IFRS 16

Group	(in HRK million)				Total
	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	
Interest on lease liabilities	7	-	1	2	10
Expenses relating to short-term leases	3	-	-	-	3
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	1	10	-	-	11
Balance at 31 December 2021	11	10	1	2	24
Interest on lease liabilities	2	-	-	2	4
Expenses relating to short-term leases	4	4	-	-	8
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	6	-	-	6
Balance at 31 December 2020	6	10	-	2	18

Bank	(in HRK million)			Total
	Land and buildings	Computer equipment		
Interest on lease liabilities	5	1		6
Balance at 31 December 2021	5	1		6
Interest on lease liabilities	6	2		8
Expenses relating to short-term leases	2	-		2
Balance at 31 December 2020	8	2		10

Notes to the financial statements (continued)

44 Related party transactions

The parent company of Privredna banka Zagreb d.d. and its subsidiaries is Intesa Sanpaolo Holding International which holds 97.5% of the Bank's share capital as at 31 December 2021 (97.5% as at 31 December 2020). The ultimate controlling party is Intesa Sanpaolo S.p.A. a bank incorporated in Italy.

The Bank considers that it has an immediate related party relationship with: its ultimate parent and its affiliates; other key shareholders and their affiliates; its subsidiaries and associates and the pension fund managed by its associate, PBZ Croatia osiguranje d.d.; Supervisory Board members, Management Board members and other executive management (together "key management personnel"), in accordance with the International Accounting standard 24 "Related party Disclosures" ("IAS 24"). The Bank grants loans to or places deposits with related parties in the ordinary course of business.

Notes to the financial statements (continued)

44 Related party transactions (continued)

The volumes of related party transactions during the year and outstanding balances at the year-end were as follows:

Group	(in HRK million)			
	Key manage- ment person- nel	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other share- holders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given				
Balance at 1 January 2021	10	510	-	157
Changes during the year	-	226	-	199
Balance at 31 December 2021	10	736	-	356
Interest income for the year ended 31 December 2021	-	2	-	1
Interest income for the year ended 31 December 2020	-	2	-	-
Deposits and loans received				
Balance at 1 January 2021	53	1,564	71	102
Changes during the year	-	(85)	1	166
Balance at 31 December 2021	53	1,479	72	268
Interest expense for the year ended 31 December 2021	-	3	-	1
Interest expense for the year ended 31 December 2020	-	(4)	-	-
Contingent liabilities and commitments at 31 December 2021	-	201	-	3
Contingent liabilities and commitments at 31 December 2020	2	211	-	-
Fees and other income for the year ended 31 December 2021	-	12	10	32
Fees and other income for the year ended 31 December 2020	-	2	12	2
Fees and other expense for the year ended 31 December 2021	-	(4)	-	(19)
Fees and other expense for the year ended 31 December 2020	-	(24)	-	(12)

Notes to the financial statements (continued)

44 Related party transactions (continued)

Bank	(in HRK million)				
	Key man- agement personnel	Bank's subsidiar- ies	Ultimate control- ling party - Intesa Sanpaolo S.p.A	Associ- ates	Other sharehold- ers and their affili- ates and affiliates of ultimate controlling party
Deposits and loans given					
Balance at 1 January 2021	8	533	4	-	1
Changes during the year	(1)	316	1	-	2
Balance at 31 December 2021	7	849	5	-	3
Interest income for the year ended 31 December 2021	-	8	-	-	-
Interest income for the year ended 31 December 2020	-	9	-	-	-
Deposits and loans received					
Balance at 1 January 2021	39	1.109	2	71	43
Changes during the year	1	(10)	834	1	57
Balance at 31 December 2021	40	1.099	836	72	100
Interest expense for the year ended 31 December 2021	-	(5)	-	-	-
Interest expense for the year ended 31 December 2020	-	(2)	-	-	-
Contingent liabilities and commitments at 31 December 2021	2	36	153	-	3
Contingent liabilities and commitments at 31 December 2020	2	290	137	-	-
Lease expense for the year ended 31 December 2021	-	-	-	-	-
Lease expense for the year ended 31 December 2020	-	(6)	-	-	-
Fees and other income for the year ended 31 December 2021	-	196	11	10	32
Fees and other income for the year ended 31 December 2020	-	179	1	12	2
Fees and other expense for the year ended 31 December 2021	-	(17)	-	-	(20)
Fees and other expense for the year ended 31 December 2020	-	(17)	(26)	-	(12)

No provisions were recognised in respect of deposits and loans given to related parties as at 31 December 2021 (31 December 2020: nil).

Notes to the financial statements (continued)

44 Related party transactions (continued)

Annual key management remuneration:

	(in HRK million)	
	BANK	
	2021	2020
Short-term benefits	66	63
- salaries paid for the current year	66	63
Long-term benefits	22	17
- paid during the current year in respect of earlier years	22	17
	88	80

Key management personnel include Management Board and senior executive directors as well as executive directors responsible for areas of strategic relevance. The total number of key management personnel of the Group as at 31 December 2021 was 61 (31 December 2020: 55).

Bonuses in 2021 were mostly paid in cash, while for 31 Risk takers bonuses also included share allocations on a deferred basis.

Share-based payments

Intesa Sanpaolo launched a long-term bonus scheme, in favour of executives holding key positions in the Group (so called Risk takers), aimed at achieving business plan objectives and increasing the value of the Intesa Sanpaolo Group.

This scheme entitles the key executives to a cash payment of variable incentive, split in cash and shares payment, where the share's payment is based on the price of entitled shares, if certain performance conditions are fulfilled. The fair value of services received from key executives is measured by reference to the fair value of the instrument granted which is based on the quoted market prices.

	Number of instruments held (in units)		The carrying amount of liabilities for cash-settled arrangements (in HRK million)	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Awards granted	40,025	107,168	9	5

Notes to the financial statements (continued)

45 Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Regulation of the European parliament on prudential requirements for credit institutions (hereafter: CRR) and Croatian National Bank in supervising the Bank.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

For the purposes of capital adequacy computation the Bank choose to adopt the 'static approach' which allows the bank to gradually include IFRS 9 impact in the common capital calculation as follows 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

Regulatory capital and capital ratios according to EBA requirements and CNB national discretions, calculated for the Bank only (as of the date of issuance of these financial statements information on regulatory capital and risk-weighted assets and other risk elements is unaudited), are as follows:

Regulatory capital (unaudited)

	(in HRK million)	
	BANK	
	2021	2020
Issued share capital	1,907	1,907
Share premium	1,570	1,570
Treasury shares (net of share premium on treasury shares)	(221)	(12)
Retained earnings (excluding profit for the period)	10,699	10,868
Accumulated other comprehensive income	154	185
Other reserves	390	217
Deductions in accordance with EBA regulations	113	251
Common Equity Tier 1 capital (unaudited)	14,612	14,986
Tier 1 capital	14,612	14,986
Total regulatory capital (unaudited)	14,612	14,986
Risk weighted assets and other risk elements (unaudited)	51,045	51,158
Common Equity Tier 1 capital ratio (unaudited)	28.63%	29.29%
Tier 1 (unaudited)	28.63%	29.29%
Total capital ratio (unaudited)	28.63%	29.29%

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Investment securities measured at fair value through other comprehensive income are generally measured at fair value with the exception of some equity investments which are carried at cost less impairment given that their fair value cannot be reliably measured.

a) Financial instruments measured at fair value and fair value hierarchy

The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and for this reason, when calculating the fair value of a financial asset or liability all material risks that affect them must be identified and taken into consideration.

When measuring fair values, the Bank takes into account the IFRS fair value hierarchy that reflects the significance of the inputs used in making the measurement. Each instrument is individually evaluated. The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy as follows:

Level 1: Instruments valued using quoted (unadjusted) prices in active markets for identical assets or liabilities; these are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets.

- These instruments include: liquid debt and equity securities traded on liquid markets, and quoted units in investment funds.

Level 2: Instruments valued using valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

- These instruments include: less-liquid debt, equity securities and derivatives valued by a model which uses Level 1 inputs.

Level 3: Instruments valued using valuation techniques using market data which is not directly observable: these are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

- These instruments include: illiquid debt securities and illiquid equity securities.

Notes to the financial statements (continued)**46 Fair values of financial assets and liabilities (continued)****a) Financial instruments measured at fair value and fair value hierarchy (continued)**

The following table presents an analysis of financial instruments carried at fair value by the level of hierarchy:

Group	(in HRK million)							
	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative assets	-	43	-	43	-	2	-	2
<i>Trading assets</i>								
Government bonds	1,135	-	-	1,135	1,269	-	-	1,269
Total	1,135	-	-	1,135	1,269	-	-	1,269
<i>Investment securities</i>								
Government bonds and treasury bills	3,276	6,187	-	9,463	3,233	7,529	-	10,762
Bank's bonds	-	56	-	56	-	211	-	211
Corporate bonds	-	67	-	67	-	62	-	62
Equities	172	7	4	183	169	6	23	198
Total	3,448	6,317	4	9,769	3,402	7,808	23	11,233
Financial assets	4,583	6,360	4	10,947	4,671	7,810	23	12,504
Derivative financial liabilities	-	99	-	-	-	210	-	210
Financial liabilities	-	99	-	-	-	210	-	210

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

Bank	(in HRK million)							
	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative assets	-	37	-	37	-	1	-	1
<i>Trading assets</i>								
Government bonds	1,135	-	-	1,135	1,269	-	-	1,269
Total	1,135	-	-	1,135	1,269	-	-	1,269
<i>Investment securities</i>								
Government bonds and treasury bills	2,053	5,376	-	7,429	1,448	7,239	-	8,687
Corporate bonds	-	46	-	46	-	43	-	43
Equities	68	-	3	71	65	-	21	86
Total	2,121	5,422	3	7,546	1,513	7,282	21	8,816
Financial assets	3,256	5,459	3	8,718	2,782	7,283	21	10,086
Derivative financial liabilities	-	1	-	1	-	25	-	25
Financial liabilities	-	1	-	1	-	25	-	25

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

During 2021 and 2020, no transfers from Level 1 to Level 2 or from Level 2 to Level 1 occurred, as there were no changes to the methodology used in determining levels of the fair value hierarchy, while the market activity of financial instruments in the Group's portfolios remained unchanged.

The existence of published prices quotations in an active market is the best evidence of fair value and these quoted prices (Effective Market Quotes) shall therefore be used as the primary method for measuring financial assets and liabilities in the trading portfolio. If the market for a financial instrument is not active, the Group determines the fair value by using a valuation technique. Valuation techniques include:

- using market values which are indirectly connected to the instrument being measured, deriving from products with similar risk characteristics (Comparable Approach);
- valuations conducted using (even only in part) inputs not deriving from parameters observable on the market, for which estimates and assumptions formulated by the assessor are used (Mark-to-Model).

Given the uncertainties of the domestic market, primarily characterised by low liquidity where market conditions do not show active trading but rather inactive, the Group primarily uses valuation techniques based on the following principles:

- Used yield curves are created from interest rate quotations observed on the market;
- An appropriate yield curve (the one that is associated with the same currency in which the security, whose price is modelled, is denominated) is used in discounting of all the security's cash flows in order to determine its present value;
- In determining the fair value of bonds issued by corporate issuers and municipality bonds, the Group additionally uses the spreads associated with the internal credit rating of the issuer, which is then added to the yield curve for valuation thus capturing credit risk and various other counterparty related risks. Estimates for unobservable input was 4.15%. Significant increases in those inputs would result in lower fair values, while significant reduction would result in higher fair values. Considering the relatively small size of the financial instruments classified as Level 3, changing one or more of the assumptions would have insignificant effects on the overall financial statements.

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents a reconciliation from the beginning balances to the ending balances from fair value measurements in Level 3 of the fair value hierarchy.

	(in HRK million)	
	GROUP	BANK
	Equities	Equities
Balance at 1 January 2021	23	21
Total gains or losses:	(4)	(4)
<i>in profit or loss</i>	(4)	(4)
Sale	(15)	(14)
Balance at 31 December 2021	4	3
Balance at 1 January 2020	28	21
Transfer out of Level 3	(5)	-
Balance at 31 December 2020	23	21

Notes to the financial statements (continued)**46 Fair values of financial assets and liabilities (continued)****b) Financial instruments not measured at fair value**

The following table sets out the fair values of financial instruments not measured at fair value for the Group and the Bank and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

Group	(in HRK million)				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2021					
Assets					
Cash and current accounts with banks	-	35,885	-	35,885	35,885
Balances with CNB	-	-	4,533	4,533	4,533
Loans and advances to banks	-	5,769	509	6,278	6,230
Loans and advances to customers	-	20,135	59,830	79,965	78,679
Investment securities measured at amortised cost	-	1,545	425	1,970	1,982
Liabilities					
Current accounts and deposits from banks	-	1,295	-	1,295	1,295
Current accounts and deposits from customers	-	110,233	-	110,233	109,980
Interest-bearing borrowings and other financial liabilities	-	7,000	-	7,000	6,972
31 December 2020					
Assets					
Cash and current accounts with banks	-	27,002	-	27,002	27,002
Balances with CNB	-	-	4,035	4,035	4,035
Loans and advances to banks	-	6,402	2	6,404	6,404
Loans and advances to customers	-	19,598	56,766	76,364	75,082
Investment securities measured at amortised cost	-	-	455	455	445
Liabilities					
Current accounts and deposits from banks	-	1,847	-	1,847	1,847
Current accounts and deposits from customers	-	99,592	-	99,592	99,461
Interest-bearing borrowings and other financial liabilities	-	5,686	-	5,686	5,628

Notes to the financial statements (continued)**46 Fair values of financial assets and liabilities (continued)****b) Financial instruments not measured at fair value (continued)**

Bank	(in HRK million)				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2021					
Assets					
Cash and current accounts with banks	-	27,403	-	27,403	27,403
Balances with CNB	-	-	4,533	4,533	4,533
Loans and advances to banks	-	4,707	-	4,707	4,659
Loans and advances to customers	-	12,742	42,375	55,117	53,835
Investment securities measured at amortised cost	-	1,545	401	1,946	1,958
Liabilities					
Current accounts and deposits from banks	-	1,911	-	1,911	1,911
Current accounts and deposits from customers	-	81,344	-	81,344	81,112
Interest-bearing borrowings and other financial liabilities	-	3,653	-	3,653	3,597
31 December 2020					
Assets					
Cash and current accounts with banks	-	21,425	-	21,425	21,425
Balances with CNB	-	-	4,035	4,035	4,035
Loans and advances to banks	-	5,329	-	5,329	5,329
Loans and advances to customers	-	11,984	40,528	52,512	51,170
Investment securities measured at amortised cost	-	-	426	426	423
Liabilities					
Current accounts and deposits from banks	-	2,190	-	2,190	2,190
Current accounts and deposits from customers	-	73,260	-	73,260	73,155
Interest-bearing borrowings and other financial liabilities	-	3,719	-	3,719	3,613

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- There are no significant differences between carrying value and fair value of cash and current accounts with banks and balances with the Croatian National Bank given the short maturity of such assets.
- Loans and advances to banks and customers are presented net of impairment allowance. The estimated fair value of loans and advances represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of performing and non-performing loans includes estimation and is therefore classified as Level 3 in fair value hierarchy. Expected future impairment losses are not taken into account. The fair value of debt securities classified as loans and receivables, representing Croatian Government bonds, is measured using valuation techniques based on the yield curves created from interest rate quotations observed on the market and are consequently classified as Level 2 in the fair value hierarchy, while fair value of other debt securities classified as loans and receivables is measured using spreads associated with internal credit ratings of the issuers and these securities are classified as Level 3 in the fair value hierarchy.
- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. The value of customer relationships has not been taken into account. Deposits and loans received are classified as Level 2 in the fair value hierarchy since the parameters used in valuation are market observable.
- The majority of interest-bearing borrowings carry floating interest rates which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values.

Notes to the financial statements (continued)

47 Financial risk management policies

This section provides details of the Group's exposure to risks and describes the methods used by the management to identify, measure and manage risks. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management has been established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring their implementation. With particular reference to risk taking preferences, the Group defines its risk appetite through Risk Appetite Framework (RAF), i.e. set of strategic key limits ensuring stability of the Group in the upcoming period and beyond.

Accepted management principles of risk management have been implemented in all subsidiaries.

a) Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary credit risk exposure arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued – as disclosed in Note 38.

Lending commitments, including those based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the solvency position of customers not worsening), represent liabilities that can be revoked. Irrevocable liabilities are based on undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.

Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit, which represent written guarantees of the Group in a client's name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. The credit risk for this type of product is significantly lower than for direct loans.

Exposure to credit risk has been managed in accordance with the Group's policies and with the regulatory requirements of the Croatian National Bank. 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 within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Credit Risk Governance Committee monitors changes in the credit-worthiness of credit exposures and reviews them for any proposed expected credit losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of increase in credit risk or default in the credit portfolio. The Group continually applies prudent methods and models used in the process of credit risk assessment.

The Group is also continuously developing internal models compliant with an internal ratings-based approach ("IRB"), as prescribed by the Capital Requirement Regulation (EU Regulation 575/2013) and supplementing legislation, in order to quantify:

- default risk expressed in terms of internal rating which is periodically assigned to corporate and retail customers and quantified as probability of default (PD models);
- loss given default as an estimate of potential losses in the event of default, given the characteristics of the transaction and present collateral (LGD models).

Internal models are deeply embedded into credit processes and underwriting policies where they determine characteristics of the transaction such as lending limit, required collateral and price as well as an appropriate decision level within an internal scheme of delegation of powers. Furthermore, internal models are also used for calculation of an adequate level of internal capital (ICAAP) and within the stress testing framework.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

For the purpose of measuring the Expected Credit Loss, the Group aligned its macroeconomic forecasts with the indications. The table below shows the scenarios generated and used to measure ECL.

Macroeconomic indicator	Favorable scenario				Baseline scenario				Adverse scenario			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
CPI y/y (average) %	2.00	2.70	2.40	2.25	1.93	2.48	2.08	2.00	1.76	2.05	2.00	2.00
Real GDP y/y %	7.27	6.22	5.47	5.06	7.00	5.00	4.00	3.60	5.94	3.72	3.09	3.02
Euribor 6M (average) %	(0.52)	(0.51)	(0.40)	(0.01)	(0.52)	(0.51)	(0.50)	(0.44)	(0.52)	(0.51)	(0.50)	(0.44)
Personal expenditure (%)	7.16	5.52	4.29	3.40	6.99	4.79	3.41	2.53	6.36	4.02	2.86	2.18
Wages	5.13	3.68	3.42	3.35	5.06	3.47	3.10	3.10	4.89	3.03	3.02	3.10

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)****Maximum exposure to credit risk**

The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment allowance before the effect of mitigation through collateral agreements.

		(in HRK million)			
		GROUP		BANK	
<i>Notes</i>		2021	2020	2021	2020
Cash and current accounts with banks (excluding cash in hand)	18	31,153	23,512	24,811	19,262
Balances with the Croatian National bank	19	4,533	4,035	4,533	4,035
Financial assets held for trading (excluding equities and investments in funds)	21	1,135	1,269	1,135	1,269
Derivative financial assets	22	43	2	37	1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	31	77	(3)	-
Loans and advances to banks	24	6,230	6,404	4,659	5,329
Loans and advances to customers	25	78,679	75,087	53,835	51,170
Investment securities (w/o equities)	20	11,501	11,418	9,387	9,110
Other assets (excluding foreclosed assets and prepaid expenses)	31	62	80	49	31
Total		133,367	121,884	98,443	90,207
Contingent liabilities and commitments	39	24,036	22,401	18,122	17,353
Total credit risk exposure		157,403	144,285	116,565	107,560

Where financial instruments are recorded at fair value, the amounts presented above represent the credit risk exposure at the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements

In terms of credit risk mitigation, the Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Group approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obligations under the approved facility;
- guarantee of the Government of the Republic of Croatia;
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank;
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar;
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development;
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regulations of the Bank;
- pledge of units in investment funds managed by PBZ Invest;
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Group's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for provision for expected credit losses.

The majority of housing loans are secured by mortgages over residential property. A significant part of the corporate portfolio is secured by mortgages over different types of commercial property.

The Republic of Croatia has in the past issued guarantees for the repayment of loans and advances to qualifying customers in certain key industries which were provided for by the state budget. In addition, the Republic of Croatia has issued guarantees for a certain number of the Bank's loans and off-balance-sheet credit risks.

The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of impairment loss required against loans and off-balance-sheet credit risk exposure to certain entities.

Total Group balance-sheet and off-balance-sheet credit risks guaranteed by the Republic of Croatia or repayable from the state budget amounted to HRK 4,540 million (2020: HRK 4,748 million). Exposure to Croatian municipalities is included in the above analysis. The following table sets out the appraised value of collateral for loans and receivables to customers.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements (continued)

Analysis by type of collateral for loans and advances to customers at amortized cost

Group	(in HRK million)			
	2021		2020	
	Net loans	Appraised value of collateral	Net loans	Appraised value of collateral
Residential Real Estate	18,853	38,883	15,628	33,745
Commercial Real Estate	7,920	28,764	10,043	31,462
Other Real Estate	1,963	8,351	1,893	4,298
Real Estate	28,736	75,998	27,564	69,505
First Rate Guarantees	6,703	11,052	6,403	9,088
<i>Central Government</i>	5,237	7,535	5,323	7,000
<i>Local Government</i>	184	231	193	263
<i>Banks</i>	1,282	3,286	887	1,825
Other Guarantees	1,982	3,963	1,811	3,708
Guarantees	8,685	15,015	8,214	12,796
Loan Insurance	1,182	1,440	1,201	1,545
Life Insurance	1,382	2,002	1,478	2,070
Deposits	334	436	336	489
Shares	32	54	39	58
Bonds	399	434	183	197
Funds	1	1	1	1
Other	1,269	3,190	1,440	3,273
Other Collaterals	4,599	7,557	4,678	7,633
Total	42,020	98,570	40,456	89,934
Unsecured loans	36,749	-	34,728	-
Total	78,769	98,570	75,184	89,934

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)**

(in HRK million)

Bank	2021		2020	
	Net loans	Appraised value of collateral	Net loans	Appraised value of collateral
Residential Real Estate	13,431	25,309	10,762	21,559
Commercial Real Estate	5,311	13,825	6,817	16,427
Other Real Estate	1,071	2,258	1,543	3,217
Real Estate	19,813	41,392	19,122	41,203
First Rate Guarantees	4,459	4,549	4,251	4,369
<i>Central Government</i>	4,191	4,226	4,020	4,049
<i>Local Government</i>	183	230	190	261
<i>Banks</i>	85	93	41	59
Other Guarantees	953	1,317	548	674
Guarantees	5,412	5,866	4,799	5,043
Loan Insurance	328	549	313	605
Life Insurance	408	443	456	494
Deposits	234	316	205	333
Shares	21	27	21	26
Bonds	399	434	183	197
Funds	1	1	1	1
Other	785	1,891	804	1,492
Other Collaterals	2,176	3,661	1,983	3,148
Total	27,401	50,919	25,904	49,394
Unsecured loans	26,478	-	25,320	-
Total	53,879	50,919	51,224	49,394

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans

Loan refinancing is done for clients where the focus of the business relationship has shifted from regular payment to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The goal is timely identification of clients where refinancing would enable them to continue in business and to mitigate or prevent further losses for the Group.

Refinancing activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that are the subject of refinancing and include: supporting of sales staff in defining the appropriate refinancing strategy, analysing refinancing applications, suggesting measures and making recommendations for refinancing, monitoring progress, monitoring the portfolio, assessing the level of impairment and the Group's proposing measures that would improve collateral coverage in order to strengthen its position in the collection of receivables.

All restructurings and rescheduling have been marked with forbearance flag in line with relevant regulation. The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forbore during the period, with the related modification loss suffered by the Bank and the Group.

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Amortised cost of financial assets modified during the period	697	523	518	341
Net modification loss	(9)	(1)	(3)	(1)

The following tables provide a summary of the Bank's and the Group's forbore assets

Group 2021	(in HRK million)					
	Performing			Non - performing		
	Modifica- tion	Refinancing	Total	Modifica- tion	Refinanc- ing	Total
Loans and advances						
General governments	1	-	1	-	-	-
Non-financial corporations	337	21	358	457	77	534
Households	85	145	230	117	410	527

Group 2020	(in HRK million)					
	Performing			Non - performing		
	Modification	Refinancing	Total	Modification	Refinancing	Total
Loans and advances						
Other financial corporations	-	-	-	-	22	22
General governments	2	-	2	-	-	-
Non-financial corporations	298	8	306	677	119	796
Households	88	237	325	167	491	658

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans (continued)

Bank 2021	(in HRK million)					
	Performing			Non - performing		
	Modifica- tion	Refinanc- ing	Total	Modifica- tion	Refinanc- ing	Total
Loans and advances						
General governments	1	-	1	-	-	-
Non-financial corporations	196	6	202	418	77	496
Households	40	96	136	94	360	454

Bank 2020	(in HRK million)					
	Performing			Non - performing		
	Modification	Refinancing	Total	Modification	Refinancing	Total
Loans and advances						
General governments	2	-	2	-	-	-
Other financial corporations	-	-	-	-	22	22
Non-financial corporations	211	0	211	519	111	630
Households	43	228	271	102	483	585

The following tables provide a summary of the Bank's and the Group's forbore assets divided by gross exposure and ECL allowance.

Group 2021	(in HRK million)					
	Gross amount of forbore exposures			ECL allowance		
	Per- forming	Non-per- forming	Total	Per- forming	Non-per- forming	Total
Loans and advances						
Non-financial corporations	358	534	892	(51)	(315)	(366)
Households	230	527	757	(36)	(247)	(283)

Group 2020	(in HRK million)					
	Gross amount of forbore exposures			ECL allowance		
	Per- forming	Non-per- forming	Total	Per- forming	Non-per- forming	Total
Loans and advances						
Non-financial corporations	306	796	1,067	(45)	(472)	(518)
Households	325	658	1,009	(38)	(330)	(368)

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans (continued)

Bank 2021	(in HRK million)					
	Gross amount of forborne exposures			ECL allowance		
	Per-forming	Non-per-forming	Total	Per-forming	Non-per-forming	Total
Loans and advances						
Non-financial corporations	202	496	698	(32)	(277)	(309)
Households	136	454	590	(9)	(190)	(199)

Bank 2020	(in HRK million)					
	Gross amount of forborne exposures			ECL allowance		
	Per-forming	Non-per-forming	Total	Per-forming	Non-per-forming	Total
Loans and advances						
Non-financial corporations	211	630	841	(30)	(382)	(412)
Households	271	585	856	(19)	(277)	(296)

The Group is also continuously improving collection and workout processes (problem loan management framework) by introducing new application support boosting process efficiency and developing new collection strategies in the form of tailor-made products and offers to retail customers, refinancing standards and support for corporate clients, and finally sale of assets where further collection is deemed immaterial and therefore not appropriate/efficient to be executed within the Group.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively

Credit risk of financial assets and loan commitments and financial guarantee contracts is presented using internal classifications for the credit risk.

The Group internally classifies the loan exposures into the following risk categories:

- Standard monitoring: the client is timely servicing its liabilities and there and the exposure is not classified as credit-impaired;
- Special monitoring: clients are analysed in detail within Proactive Credit Management (PCEM) office where individual client's strategies have been defined, implemented and their execution is closely monitored. In addition to corporate clients, Bank adopted monitoring of retail clients on portfolio level within PCEM office.
- Doubtful: exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Group;
- Unlikely to pay: exposures to borrowers which are experiencing financial or economic difficulties that are expected to be overcome in a reasonable period of time
- Past due impaired: exposures other than those classified as unlikely to pay or doubtful that are past due for more than 90 days on a continuous basis above the established threshold.

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)***Credit quality analysis (continued)*

(in HRK million)

Group	12-month ECL	Life-time ECL not credit - im- paired	Life-time ECL credit - im- paired	Pur- chased credit – im- paired	Total
2021					
Loans and advances to banks at amortised cost					
Standard monitoring	6,231	-	-	-	6,231
Doubtful	-	-	4	-	4
Loss allowance	(1)	-	(4)	-	(5)
Carrying amount	6,230	-	-	-	6,230
Loans and advances to customers at amortised cost					
Standard monitoring	72,771	3,115	-	22	75,908
Special monitoring	-	2,274	-	-	2,274
Past due impaired	-	-	266	1	267
Unlikely to pay	-	-	1,727	18	1,745
Doubtful	-	-	1,500	24	1,524
Loss allowance	(648)	(520)	(1,758)	(23)	(2,949)
Carrying amount	72,123	4,869	1,735	42	78,769
2020					
Loans and advances to banks at amortised cost					
Standard monitoring	6,406	-	-	-	6,406
Doubtful	-	-	3	-	3
Loss allowance	(2)	-	(3)	-	(5)
Carrying amount	6,404	-	-	-	6,404
Loans and advances to customers at amortised cost					
Standard monitoring	68,358	3,663	-	25	72,046
Special monitoring	-	2,368	-	-	2,368
Past due impaired	-	-	385	1	386
Unlikely to pay	-	-	1,986	21	2,007
Doubtful	-	-	1,954	30	1,984
Loss allowance	(592)	(524)	(2,461)	(30)	(3,607)
Carrying amount	67,766	5,507	1,864	47	75,184

Notes to the financial statements (continued)
47 Financial risk management policies (continued)
a) Credit risk (continued)
Credit quality analysis (continued)

(in HRK million)

Bank	12- month ECL	Life- time ECL not credit - im- paired	Life- time ECL credit - im- paired	Pur- chased credit - im- paired	Total
2021					
Loans and advances to banks at amortised cost					
Standard monitoring	4,660	-	-	-	4,660
Doubtful	-	-	3	-	3
Loss allowance	(1)	-	(3)	-	(4)
Carrying amount	4,659	-	-	-	4,659
Loans and advances to customers at amortised cost					
Standard monitoring	49,156	2,220	-	22	51,398
Special monitoring	-	1,792	-	-	1,792
Past due impaired	-	-	178	1	179
Unlikely to pay	-	-	1,454	18	1,472
Doubtful	-	-	1,131	24	1,155
Loss allowance	(441)	(365)	(1,288)	(23)	(2,117)
Carrying amount	48,715	3,647	1,475	42	53,879
2020					
Loans and advances to banks at amortised cost					
Standard monitoring	5,330	-	-	-	5,330
Doubtful	-	-	3	-	3
Loss allowance	(1)	-	(3)	-	(4)
Carrying amount	5,329	-	-	-	5,329
Loans and advances to customers at amortised cost					
Standard monitoring	45,569	2,764	-	25	48,358
Special monitoring	-	2,100	-	-	2,100
Past due impaired	-	-	283	1	284
Unlikely to pay	-	-	1,609	21	1,630
Doubtful	-	-	1,500	27	1,527
Loss allowance	(370)	(392)	(1,883)	(30)	(2,675)
Carrying amount	45,199	4,472	1,509	44	51,224

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)***Credit quality analysis (continued)*

(in HRK million)

Group	12-month ECL	Lifetime ECL not credit - im- paired	Lifetime ECL credit - impaired	Total
2021				
Debt investment securities at amor- tised cost				
Standard monitoring	1,669	-	-	1,669
Special monitoring	-	360	-	360
Loss allowance	(3)	(44)	-	(47)
Carrying amount	1,666	316	-	1,982
Debt investment securities at FVOCI				
Standard monitoring	9,533	-	-	9,533
Loss allowance	(14)	-	-	(14)
Carrying amount	9,519	-	-	9,519
Loan commitments				
Standard monitoring	18,373	279	-	18,652
Special monitoring	1	202	-	203
Past due impaired	-	-	6	6
Unlikely to pay	-	-	56	56
Doubtful	-	-	11	11
Loss allowance	(31)	(12)	(26)	(69)
Carrying amount	18,343	469	47	18,859
Financial guarantee contracts				
Standard monitoring	4,539	109	-	4,648
Special monitoring	-	152	-	152
Past due impaired	-	-	-	-
Unlikely to pay	-	-	232	232
Doubtful	-	-	85	85
Loss allowance	(13)	(6)	(162)	(181)
Carrying amount	4,526	255	155	4,936

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)***Credit quality analysis (continued)*

(in HRK million)

Group	12-month ECL	Lifetime ECL not credit - im- paired	Lifetime ECL credit - impaired	Total
2020				
Debt investment securities at amor- tised cost				
Standard monitoring	397	-	-	397
Special monitoring	-	61	-	61
Loss allowance	(9)	(4)	-	(13)
Carrying amount	388	57	-	445
Debt investment securities at FVOCI				
Standard monitoring	10,983	-	-	10,983
Loss allowance	(10)	-	-	(10)
Carrying amount	10,973	-	-	10,973
Loan commitments				
Standard monitoring	17,284	241	-	17,525
Special monitoring	-	88	-	88
Past due impaired	-	-	10	10
Unlikely to pay	-	-	47	47
Doubtful	-	-	10	10
Loss allowance	(54)	(9)	(26)	(89)
Carrying amount	17,230	320	41	17,591
Financial guarantee contracts				
Standard monitoring	4,178	118	-	4,296
Special monitoring	-	198	-	198
Past due impaired	-	-	1	1
Unlikely to pay	-	-	115	115
Doubtful	-	-	111	111
Loss allowance	(4)	(11)	(115)	(130)
Carrying amount	4,174	305	112	4,591

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)***Credit quality analysis (continued)*

(in HRK million)

Bank	12-month ECL	Lifetime ECL not credit - im- paired	Lifetime ECL credit - impaired	Total
2021				
Debt investment securities at amor- tised cost				
Standard monitoring	1,645	-	-	1,645
Special monitoring	-	360	-	360
Loss allowance	(3)	(44)	-	(47)
Carrying amount	1,642	316	-	1,958
Debt investment securities at FVOCI				
Standard monitoring	7,443	-	-	7,443
Loss allowance	(14)			(14)
Carrying amount	7,429	-	-	7,429
Loan commitments				
Standard monitoring	13,974	193	-	14,167
Special monitoring	1	202	-	203
Past due impaired	-	-	4	4
Unlikely to pay	-	-	49	49
Doubtful	-	-	9	9
Loss allowance	(26)	(17)	(24)	(67)
Carrying amount	13,949	378	38	14,365
Financial guarantee contracts				
Standard monitoring	3,213	27	-	3,240
Special monitoring	-	152	-	152
Past due impaired	-	-	-	-
Unlikely to pay	-	-	213	213
Doubtful	-	-	85	85
Loss allowance	(3)	(6)	(151)	(160)
Carrying amount	3,210	173	147	3,530

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****a) Credit risk (continued)***Credit quality analysis (continued)*

(in HRK million)

Bank	12-month ECL	Lifetime ECL not credit - im- paired	Lifetime ECL credit - impaired	Total
2020				
Debt investment securities at amor- tised cost				
Standard monitoring	373	-	-	373
Special monitoring	-	62	-	62
Loss allowance	(8)	(4)	-	(12)
Carrying amount	365	58	-	423
Debt investment securities at FVOCI				
Standard monitoring	8,697	-	-	8,697
Loss allowance	(10)	-	-	(10)
Carrying amount	8,687	-	-	8,687
Loan commitments				
Standard monitoring	13,710	175	-	13,885
Special monitoring	-	88	-	88
Past due impaired	-	-	7	7
Unlikely to pay	-	-	44	44
Doubtful	-	-	9	9
Loss allowance	(33)	(11)	(23)	(67)
Carrying amount	13,677	252	37	13,966
Financial guarantee contracts				
Standard monitoring	2,823	77	-	2,900
Special monitoring	-	198	-	198
Past due impaired	-	-	1	1
Unlikely to pay	-	-	115	115
Doubtful	-	-	106	106
Loss allowance	(5)	(13)	(112)	(130)
Carrying amount	2,818	262	110	3,190

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

(in HRK million)

	GROUP	
	2021	2020
Loans and advances to customers		
Unlikely to pay	-	5
Total carrying amount	-	5

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. Criteria for determining significant increase in credit risk are defined for the purpose of proper allocation of performing exposures in "Stage 1" or "Stage 2".

Regarding the monitoring of credit quality, and in line with the standard and guidelines of the supervisory body on the way of applying accounting standards for larger institutions, efforts have been made in conducting the timely credit quality analysis of each individual credit relationship (both in the form of card exposure and in the form of credit exposure) for the purpose of identifying any "significant deterioration" from the date of initial recognition and the consequent need for classification in Stage 2, as well as the conditions for returning to Stage 1 from Stage 2. In other words, the elected choice, for each case separately and for each reporting date, implies a comparison of the credit quality of the financial instrument at the time of valuation and at the time of issuance or purchase with the purpose of determining whether the criteria for classification to Stage 2 have been met.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's modelling, one of the following criteria is met:

- Default probability change in relation to the initial recognition of the financial instrument. It is therefore an assessment implemented by adopting the "relative" criterion;
- Clients that are under special monitoring treatment (PCEM)
- Eventual presence of due amount which remains overdue over 30 days (based on materiality threshold),
- Existence of "forbearance" measures;
- Finally, certain indicators of the internal credit risk tracking system are considered for the purpose of transition between "Stages" where appropriate.

Recognition of significant increase in credit risk since origination is also assessed based on the number of rating downgrades since origination. The number of downgrades required for Stage 2 classification is determined based on the Internal credit rating at origination and distance from the low credit quality rating grade.

In accordance with regulatory guidance, retail customers were able to obtain a moratorium of up to six months (for significantly impacted industries like tourism up to some twelve months). Such moratoria would not necessarily have been considered forbearance. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related moratoria were not considered forbore. However, any support provided beyond completion of a moratorium is considered forbearance.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Forward looking information

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. In order to take into account, the forward looking data and the macroeconomic scenarios that the Group could encounter, it was decided to adopt, as further detailed in the text below, the so-called „Most likely scenario + add on” approach.

The inclusion of “forward looking” factors, particularly macroeconomic scenarios, is absolutely important element for estimating expected losses. From a methodological point of view, several possible alternative approaches were analysed to take these elements into account. In relation to different options considered, the Group has decided to adopt the approach representing the so-called “Most likely scenario + Add-on” which, for the purpose of calculating expected credit loss (ECL) and “stage assignment”, implies taking into account the loss by credits set for the baseline scenario, with the attributed add-on aimed at reflecting the effects resulting from the possibility of the realisation of alternative of macroeconomic scenarios,

According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Group based on adjusted publicly available information.

Modification of financial asset

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised. In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are “substantial”. The assessment of the “substantial nature” of the change must be made using both qualitative and quantitative information.

The qualitative and quantitative analyses aimed at defining the “substantial nature” of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
 - the former, aimed at “retaining” the customer, involve a borrower that is not in financial difficulty.
 - the latter, carried out for “reasons of credit risk” (forbearance measures), relate to the bank’s attempt to maximise the recovery of the cash flows of the original loan.
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD) and exposure at default (EAD), while for stage 2 exposures remaining maturity and discounting rate should be given as well.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL (stage 2 exposures) is defined as the expected present value measure of losses that arise if a borrower defaults on their obligation throughout the life of financial instrument. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD properly discounted to the reporting date.

The following definitions apply for PD, LGD and EAD:

- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. The PD factor is typically quantified through the rating. In the Group, the PD values are derived from internal rating models where available
- LGD (Loss Given Default): percentage loss in the event of default, LGD rates are derived from internally developed, collection models;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

In November 2021 the Bank and the Group made regular annual re-estimation of overall IFRS9 parameters following parent bank's methodological approach. Moreover, the Group also re-developed PD satellite models for both Retail and Corporate segments which project forward-looking PD rates based on different macroeconomic scenarios.

With regard to the measurement of credit exposures, the various measures adopted by the regulators since 2020, progressively strengthened and adapted the regulatory framework, which had already been clearly set out in the early months of 2020 and was progressively refined, in response to the evolution of the economic and the health situation. For the Financial Statements at 31 December 2021, the Group has therefore decided to maintain the approaches adopted during 2020, with the appropriate refinements and adjustments resulting from the evolution of the health crisis and the economic scenario.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Measurement of ECL (continued)

The PBZ Group has therefore aligned itself to the guidance from the regulators by:

- updating the macroeconomic scenario for the calculation of the ECL (measurement of loans);
- refinement of the list of stage 2 criteria by inclusion of clients that are receiving government support for unemployment in stage 2 (classification of loans)
- adopting specific management overlays to include ad hoc corrective measures, not captured by the models, to better reflect the particularities of the COVID-19 impacts in the measurement of loans.

In line with the guidance from the regulators and the best practices in the market, the PBZ Group has adopted specific management overlays to include ad hoc corrective measures, not captured by the models, to better reflect the particularities of the COVID-19 impacts in the measurement of loans. Therefore, given that the underlying reasons continue to apply and substance, the choices made in 2020 have been maintained. In summary:

- one-off treatments to provide more granularity through extraordinary staging triggers of the impacts of the current scenario on counterparties in the micro-sectors most penalised by the crisis, also in light of the specific analyses on counterparties and the presence of moratoria measures;
- adoption of corrective factors on default rates (floor in baseline scenario for 2022 set to the last observed DRs) include the expected benefits of major economic support initiatives such as government guarantees not captured by satellite models, on the one hand, and to incorporate in the models the worsening effects of the moratoria during the period of their validity in postponing the transition to default status to future years.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

The following tables present reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

Group	2021					(in HRK million) 2020				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total
Loans and advances to customers at amortised cost										
Balance at 1 January	611	534	2,429	33	3,607	563	470	2,485	44	3,562
Transfer to 12-month ECL	145	(104)	(41)	-	-	123	(102)	(21)	-	-
Transfer to lifetime ECL not credit-impaired	(28)	75	(47)	-	-	(67)	110	(43)	-	-
Transfer to lifetime ECL credit – impaired	(13)	(66)	79	-	-	(32)	(133)	164	-	(1)
Net remeasurement of loss allowance	(13)	173	(151)	(6)	3	119	218	368	(12)	693
Financial assets that have been derecognised	(65)	(90)	(387)	(1)	(543)	(76)	(55)	(234)	(1)	(366)
Write-offs	-	-	(169)	-	(169)	-	-	(428)	-	(428)
Changes in models/risk parameters	17	8	32	-	57	(23)	22	118	2	119
Foreign exchange and other movements	(1)	(1)	(4)	-	(6)	4	4	20	-	28
Balance at 31 December	653	529	1,741	26	2,949	611	534	2,429	33	3,607

Notes to the financial statements (continued)
47 Financial risk management policies (continued)
a) Credit risk (continued)

Bank	2021					(in HRK million)				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total
Loans and advances to customers at amortised cost										
Balance at 1 January	384	392	1,866	33	2,675	358	359	1,939	44	2,700
Transfer to 12-month ECL	102	(80)	(22)	-	-	87	(71)	(16)	-	-
Transfer to lifetime ECL not credit-impaired	(18)	48	(30)	-	-	(36)	74	(38)	-	-
Transfer to lifetime ECL credit – impaired	(8)	(49)	57	-	-	(15)	(73)	89	-	1
Net remeasurement of loss allowance	3	123	(286)	(6)	(166)	67	129	297	(12)	481
Financial assets that have been derecognised	(36)	(77)	(166)	(1)	(280)	(41)	(41)	(107)	(1)	(190)
Write-offs	-	-	(161)	-	(161)	-	-	(408)	-	(408)
Changes in models/risk parameters	16	8	31	-	55	(38)	13	96	2	73
Foreign exchange and other movements	(1)	(1)	(4)	-	(6)	2	2	14	-	18
Balance at 31 December	442	364	1,285	26	2,117	384	392	1,866	33	2,675

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Group

2021

Debt investment securities at FVOCI

	12-month ECL	Total
Balance at 1 January	16	16
Net remeasurement of loss allowance	1	1
New financial assets originated or purchased	11	11
Financial assets that have been derecognised	(14)	(14)
Foreign exchange and other movements	-	-
Balance at 31 December	14	14

2020

Debt investment securities at FVOCI

Balance at 1 January	11	11
New financial assets originated or purchased	9	9
Financial assets that have been derecognised	(10)	(10)
Balance at 31 December	10	10

(in HRK million)

Bank

2021

Debt investment securities at FVOCI

	12-month ECL	Total
Balance at 1 January	10	10
Net remeasurement of loss allowance	1	1
New financial assets originated or purchased	11	11
Financial assets that have been derecognised	(8)	(8)
Balance at 31 December	14	14

2020

Debt investment securities at FVOCI

Balance at 1 January	11	11
New financial assets originated or purchased	9	9
Financial assets that have been derecognised	(10)	(10)
Balance at 31 December	10	10

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

COVID-19

Immediately upon COVID-19 escalation, and as the pandemic has been progressing, the PBZ Group has introduced and accordingly revised related measures (e.g. inducing payment moratoria and additional liquidity lines) trying to support local economy stability in the situation of exceptional and temporary emergency. All these measures were fully aligned with European Banking Authority Guidelines and circular letters of Croatian National Bank (in Bosnia and Herzegovina and Slovenia aligned to their local regulation), ensuring that the treatment of non-legislative moratoria is consistent with the moratoria applied through the legislation.

At the same time, the Group has taken all the necessary steps to maintain a sound credit risk management and coverage of incurred credit risk by aligning practices with all the regulatory and accounting standards. This has been done by timely approach to identification and measurement of credit risk in our portfolio and adequately reacting on the challenges by enhancing strategies, policies, processes and mechanisms that ensure that risk is adequately assessed, classified and measured on the balance sheet.

Following the activation of EBA compliant moratoria the moratorium is not automatically considered as a forbearance measure and therefore does not also constitute a trigger for a significant increase in credit risk with consequent transition to Stage 2 (for Stage 1 positions) pursuant to IFRS 9. The Group is regularly monitoring performance of portfolio under moratoria and reclassifies to stage 2/3 upon identification of material increase in credit risk.

The following table summarizes the approved Covid-19 moratoria approved to our clients and time of expiration.

Group	Num- ber of clients	Num- ber of loans	Expo- sure	(in HRK million)	
				Ex- pired up to 31 De- cember 2021	Maturity in 1Q 2022
Total approved moratoria and expira- tion					
Corporate	2,459	3,643	7,064	7,038	26
Retail	12,340	17,853	1,879	1,879	-
Total	14,799	21,496	8,943	8,917	26

Bank	Num- ber of clients	Num- ber of loans	Expo- sure	(in HRK million)	
				Ex- pired up to 31 De- cember 2021	Maturity in 1Q 2022
Total approved moratoria and expira- tion					
Corporate	1,735	2,473	6,169	6,169	-
Retail	7,168	10,100	1,311	1,311	-
Total	8,903	12,573	7,480	7,480	-

Out of total exposure expired up to 31 December, NPL exposures amounted to HRK 663 million for the Group and to HRK 529 million for the Group.

The Group will continue in supporting clients and adequately assessing their creditworthiness, carefully considering the adequacy of risk classification as well as the related impact on financial reporting.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Financial assets at fair value through profit or loss per external risk classification

The table below provides information of the credit quality of financial assets at fair value through profit or loss (excluding equity securities and units in investment funds); using external ratings of Fitch Ratings or Standard & Poor's if Fitch Ratings was not available:

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Government bonds and treasury bills				
BB+	-	1,269	-	1,269
BBB	1,135	-	1,135	-
Total	1,135	1,269	1,135	1,269

Offsetting financial assets and financial liabilities

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Group's statement of financial position; or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables unless they are offset in the statement of financial position.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

The disclosures set out in the table on the next page include financial assets and financial liabilities that are subject to offsetting, irrespective of whether they are offset in the statement of financial position. These include derivative clearing agreements, sale and repurchase agreements and reverse sale and repurchase agreements.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts, foreign exchange swaps and embedded derivatives in contracts with a single-sided currency clause. All derivatives are classified as held for trading and carried as assets when their fair value is positive and as liabilities when negative.

At 31 December 2021 derivative financial instruments with positive fair value amounted to HRK 36 million (31 December 2020: HRK 2 million) for the Group and HRK 34 million (31 December 2020: HRK 1 million) for the Bank, while derivative financial instruments with negative fair value amounted to HRK 3 million (31 December 2020: HRK 27 million) for the Group and HRK 1 million (31 December 2020: HRK 25 million) for the Bank.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to repay at the repurchase price, classified as interest-bearing borrowings.

Reverse sale and repurchase agreements are transactions in which the Group purchases a security and simultaneously agrees to sell it at a fixed price on a future date. The Group holds collateral in the form of marketable securities in respect of loans given. Sale and repurchase agreements as well as reverse sale and repurchase agreements give the Group possibility for offsetting on a net basis, in case of default of any counterparty.

Sale and repurchase agreement, and reverse sale and repurchase transaction (continued)

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements and given in respect of sale and repurchase agreements. Collateral accepted and given includes government issued T-bills and Bonds.

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Receivables from reverse sale and repurchase agreements related to:	444	402	431	430
- loans and advances to banks	32	197	32	246
- loans and advances to customers	412	205	399	184
Fair value of collateral accepted in respect of the above	491	463	475	471
Payables under sale and repurchase agreements	1.558	1.064	1.005	1.002
- interest-bearing borrowings	1.558	1.064	1.005	1.002
Carrying amount of collateral provided in respect of the above relating to:	1.849	1.218	1.100	1.133
- financial assets designated at fair value through other comprehensive income	1.849	1.218	1.100	1.133

b) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at the appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, interest-bearing borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funding. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

b) Liquidity risk (continued)

The Group adjusts its business activities to manage liquidity risk according to regulatory and internal policies for the maintenance of liquidity reserves, matching of liabilities and assets, control of limits, preferred liquidity ratios and contingency planning procedures. Needs for short-term liquidity are planned every month for a period of one month and are controlled and maintained daily. The Treasury department manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

Apart from external requirements that include regulatory limits prescribed by the CNB (obligatory reserve with the CNB, minimum required amount of foreign currency claims, minimum liquidity coefficient and others), the Bank has defined a set of internal limits for measuring and monitoring liquidity risk exposure. Thus, the process of liquidity monitoring and control is defined through the following activities and indicators:

- monitoring of liquidity reserve levels;
- short-term mismatches (Liquidity coverage ratio and Short term Gap);
- stressed short-term mismatches;
- monitoring and control of the Bank's structural liquidity ratios (Net stable funding ratio) and analysis of the Bank's funding structure;
- money market debt exposure towards the overall deposit base and other funding concentration ratios;
- cash flow projections;
- liquidity contingency plan indicators.

For the purpose of the Group's liquidity risk exposure reporting, the following three types of signals are defined:

- *Hard limit* - breach of a prescribed limit demands action in accordance with the Bank's liquidity risk management guidelines;
- *Threshold of attention* - breach of a threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
- *Information on various measures and indicators* - serving as information to the relevant decision-making bodies.

In accordance with the CNB Decision on minimum foreign currency claims, the Bank is obliged to maintain a minimum of 17% of foreign currency liabilities in short-term assets. The actual figures were as follows:

	2021	%		2020	%
"17% ratio" (at year end)		33.36	"17% ratio" (at year end)		29.97
Average		35.58	Average		34.07
Maximum		36.74	Maximum		36.97
Minimum		33.36	Minimum		29.97

A maturity analysis of financial liabilities according to the remaining contractual maturity as well as an analysis of financial assets and financial liabilities according to their expected maturities are presented in Note 51 to these financial statements.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

e) Market risk

All trading instruments are subject to market risk, which is the risk that changes in market prices, such as interest rates, equity securities prices, foreign exchange rates and credit spreads (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The Group manages and controls market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Market risk limits are defined based on the Group strategy and requirements, in accordance with senior management risk policy indicators.

Market risk measurement techniques

Exposure to market risk is formally managed by risk limits which are approved by senior management and revised at least annually. The Group applies the following market risk management techniques: VaR ("Value at Risk"), issuer limits, positional (nominal) exposure, PV01 (the present value of the impact of a 1 bps movement in interest rate) and stop loss limits. The exposure figures and limit utilisations are delivered daily to the senior management and lower management levels within the Treasury & ALM Department, which enables informed decision-making at all management and operational levels.

The Group follows market risk measurement and management principles set in cooperation with the Intesa Sanpaolo Group. VaR methodology is used as a basis for top management reporting on the Group's market risk exposure. The Group uses historical simulation (as the Group standard VaR methodology) and RiskWatch (as a Group wide VaR calculation engine), and other supporting activities (pricing, back-testing, stress testing) to ensure compliance with Intesa Sanpaolo Group standards.

The major elements of the market risk management framework include:

- VaR Methodology and Backtesting;
- Sensitivity;
- Fair Value Measurement;
- Level measurements (nominal amount, open position, market value etc.);
- Profit and loss indicators (P&L) ;
- Stress testing and scenario analysis;
- Monitoring and measurement of counterparty and delivery risk exposure.

VaR

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value-at-risk (VaR). VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) given an adverse movement with a specified probability (confidence level). The model used by the Group is based upon a 99% confidence level, assumes a 1 day holding period and takes into account 250 historical scenarios. The use of a 99% confidence level means that losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The Group uses VaR to measure the following market risks:

- general interest rate risk in trading book;
- equity risk in trading book;
- foreign exchange risk on the statement of financial position level (both trading and banking book).

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

(in HRK thousand)

Group	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	Total
2021 – 4 January	-	1,809	266	(22)	2,053
2021 – 31 December	-	1,403	735	(658)	1,480
2021 – Average daily	-	1,749	1,399	(657)	2,491
2021 – Lowest	-	1,305	64	(28)	1,341
2021 – Highest	-	3,943	5,338	(2,777)	6,504

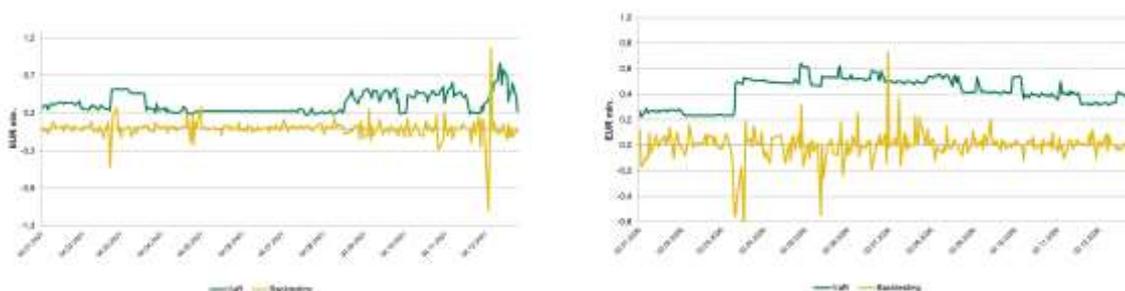
Note: historical simulation used for VaR calculations

(in HRK thousand)

Group	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	Total
2020 – 2 January	-	2,011	515	(547)	1,979
2020 – 31 December	-	1,815	370	296	2,481
2020 – Average daily	-	3,031	461	(319)	3,173
2020 – Lowest	-	1,740	36	(96)	1,680
2020 – Highest	-	4,127	2,251	(939)	5,439

Note: historical simulation used for VaR calculations

Chart below presents Bank's Total VaR movements in 2021 and 2020 and corresponding backtest values:



In accordance with confidence level of VaR model, in period of one year at least 2 backtest breaches are expected, while in 2021 four backtest breaches were observed, three of them due to change in interest rates, while one was due to FX exchange rate change.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

e) Market risk (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations:

- a one day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity;
- a 99% confidence level does not reflect losses that may occur beyond this level;
- the use of historical data as a basis for determining the possible range of future outcomes may not cover all possible scenarios, especially those of an exceptional nature;
- the VaR measure is dependent upon the Group's position and the volatility of market prices.

To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits, for each currency and for the total assets and liabilities denominated in or linked to foreign currency.

The currency risk exposure is monitored at the overall statement-of-financial-position level by calculating the foreign exchange open position as prescribed by the regulatory provisions and daily through internal limits based on market risk models (foreign exchange VaR). The management of foreign exchange currency risk is supported by monitoring the sensitivity of the Group's financial assets and liabilities to fluctuation in foreign currencies exchange rates.

The tables below indicate the currencies to which the Group and the Bank had significant exposure at 31 December 2021 and 31 December 2020 and for other currencies summarized, FX open position represents net exposure in foreign currency, for both balance and off-balance sheet items, after adjustments for the effects of derivatives. The analysis calculates the effect of a reasonably possible movement of the currencies against the kuna, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

Group	(in HRK million)						
	Currency	FX Open position 31 December 2021*	Scenario 2021		FX Open position 31 December 2020*	Scenario 2020	
			10% Move Up	10% Move Down		10% Move Up	10% Move Down
EUR	(902)	(90)	90	(1,010)	(101)	101	
CHF	(1)	(0.1)	0.1	(1)	(0.1)	0.1	
USD	3	0.3	(0.3)	(41)	(4.1)	4.1	
Other	1,347	134.7	(134.7)	(22)	(2.2)	2.2	

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Notes to the financial statements (continued)**47 Financial risk management policies (continued)****c) Market risk (continued)****Currency risk (continued)**

(in HRK million)

Bank

Currency	FX Open position 31 December 2021*	Scenario 2021		FX Open position 31 December 2020*	Scenario 2020	
		10% Move Up	10% Move Down		10% Move Up	10% Move Down
EUR	37	3.7	(3.7)	(44)	(4.4)	4.4
CHF	(1)	(0.1)	0.1	1	0.1	(0.1)
USD	(1)	(0.1)	0.1	(46)	(4.6)	4.6
Other	2	0.2	(0.2)	6	0.6	(0.6)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Currency risk is further analysed in Note 50.

Interest rate risk

Interest rate risk represents the risk of decrease in assets values caused by adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income.

The sources of interest rate risk are:

- repricing risk - resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk - the risk of changes in shape and slope of yield curve and
- basis risk - the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

Asset-liability risk management activities are conducted to manage the Group's sensitivity to interest rate changes. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and the economic value of capital. Risk management activities are aimed at optimising net interest income and the economic value of capital, in accordance with the Group's business strategies and given market interest rate levels.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates of the Group and the Bank income statements, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2021. Items with floating interest rate are distributed according to next repricing date, while items with fixed interest rate according to their original maturity.

	(in HRK million)						
	Change at 31 December 2021				Change at 31 December 2020		
	Increase in basis points	Interest income	Interest ex- penses	Net interest income	Interest income	Interest ex- penses	Net inter- est income
Group	+25	189.5	(73.3)	116.2	165.1	(74.0)	91.1
	+50	378.9	(146.6)	232.3	330.2	(147.9)	182.3
Bank	+25	136.8	(54.5)	82.3	119.7	(54.4)	65.3
	+50	273.6	(109.0)	164.6	239.4	(108.9)	130.5

A decrease in basis points would have an opposite effect on the Bank and Group's net interest income in the same amount.

Interest rate risk management is further analysed in Note 48.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale, which is not significant.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards. Derivatives are contracts which are individually negotiated over the counter.

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to measure and manage operational risk exposure at the Group level efficiently, the Group applies an internal model for operational risk exposure management in line with the prescribed Basel II framework.

The internal model for calculation of the regulatory capital requirement for operational risk is based on the Advanced Measurement Approach (AMA) and contains the following components: Loss Distribution Approach – LDA based on measure of historical losses or ex-post measured exposure (backward looking) and integrated self-diagnosis process (scenario analysis and business environment evaluation) based on subjective estimation of possible future operational losses (forward looking measure).

The AMA model has been used only for the calculation of the capital requirement for the Bank and it applies the AMA approach since 31 March 2011. For all other Group members, the Standardised Approach (TSA) has been used which calculates capital requirement as a risk weighted indicator for all regulatory business lines.

Notes to the financial statements (continued)

48 Interest rate risk

Interest rate risk is measured through change in the net present value of the portfolio in case of a shift in the reference curves.

The tables below show the sensitivity based on the change of the interest rate for one basis point through the interest rate periods which are defined by the remaining contracted maturity or the contracted interest rate period, whichever is shorter, and does not include held for trading portfolio. Positions with currency clause are represented as in reference currency. In the tables below, increases in the net present value of all future cash flows are shown as positive values, while decreases are shown as a negative value, shown over the different currencies and interest rate periods.

The basis for the sensitivity analysis of the individual position are the contracted interest rate periods. For positions which do not have interest rate periods contracted (a vista position) or can be subject to prepayment, the Group uses assumptions which reflect the real interest sensitivity of the position.

(in HRK thousands)

Group

	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	Total
Assets						
As at 31 December 2021						
HRK	(35)	(240)	(150)	(1,506)	139	(1,792)
EUR	(140)	(77)	652	(538)	(598)	(701)
USD	(10)	15	(40)	(1)	2	(34)
CHF	(3)	5	4	(5)	(7)	(6)
Other	(3)	(18)	(63)	(239)	24	(299)
Total	(191)	(315)	403	(2,289)	(440)	(2,832)
As at 31 December 2020						
HRK	(72)	(138)	(478)	(1,605)	(160)	(2,453)
EUR	(155)	14	702	(939)	(907)	(1,285)
USD	(11)	14	46	(2)	2	49
CHF	(9)	5	4	(5)	(41)	(46)
Other	(3)	(31)	(61)	(240)	(5)	(340)
Total	(250)	(136)	213	(2,791)	(1,111)	(4,075)

Notes to the financial statements (continued)**48 Interest rate risk (continued)**

(in HRK thousands)

Bank	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	Total
Assets						
As at 31 December 2021						
HRK	(36)	(231)	(164)	(1,445)	265	(1,611)
EUR	(165)	124	323	(444)	(42)	(204)
USD	(8)	18	(29)	(4)	2	(21)
CHF	(3)	6	4	(4)	(6)	(3)
Other	-	2	1	-	-	3
Total	(212)	(81)	135	(1,897)	219	(1,836)
As at 31 December 2020						
HRK	(72)	(142)	(467)	(1,548)	(18)	(2,247)
EUR	(156)	229	398	(1,685)	(409)	(1,623)
USD	(9)	15	43	-	2	51
CHF	(9)	5	4	(5)	(41)	(46)
Other	-	4	1	-	-	5
Total	(246)	111	(21)	(3,238)	(466)	(3,860)

Notes to the financial statements (continued)**49 Weighted average interest rates**

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year are calculated on average balances at the end of each month for the Group and average monthly balances for the Bank.

The weighted average interest rates at the year-end are as follows:

	GROUP		BANK	
	2021	2020	2021	2020
	%	%	%	%
Current accounts with banks	(0,27)	(0.17)	(0,07)	(0.03)
Balances with the Croatian National Bank	0,00	0.00	0,00	0.00
Financial assets at fair value through profit or loss	2,32	2.63	2,32	2.62
Loans and advances to banks	(0,13)	(0.32)	(0,38)	(0.35)
Loans and advances to customers	3,52	3.57	3,52	3.99
Current accounts and deposits from customers	0,04	0.13	0,04	0.08
Current accounts and deposits from banks and interest-bearing borrowings	0,45	0.48	0,45	0.52

50 Currency risk

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies and foreign currency deals bought and sold forward.

The Group's open FX position is mitigated through the use of derivative financial instruments which are not shown in the tables below.

Notes to the financial statements (continued)

50 Currency risk (continued)

Group	(in HRK million)						Total
	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other cur- ren- cies	HRK	
As at 31 December 2021							
Assets							
Cash and current accounts with banks	12,818	233	744	1,983	704	19,403	35,885
Balances with the Croatian National Bank	-	-	-	-	-	4,533	4,533
Financial assets held for trading	256	-	14	-	-	865	1,135
Derivative financial assets	8	-	2	-	-	33	43
Fair value changes of the hedge items in portfolio hedge of interest rate risk	31	-	-	-	-	-	31
Loans and advances to banks	3,556	962	707	757	28	220	6,230
Loans and advances to customers	45,162	49	861	3,050	1	29,556	78,679
Investment securities	4,400	-	990	100	-	6,260	11,750
Investments in subsidiaries and associates	-	-	-	-	-	66	66
Other assets	39	-	-	26	-	141	206
Current tax assets	-	-	-	14	-	16	30
Property and equipment	216	-	-	85	-	1,490	1,791
Investment property	12	-	-	-	-	62	74
Non-current assets held for sale	15	-	-	-	-	8	23
Deferred tax assets	4	-	-	2	-	130	136
Intangible assets	67	-	-	14	-	289	370
Total assets	66,584	1,244	3,318	6,031	733	63,072	140,982
Liabilities							
Current accounts and deposits from banks	686	46	24	50	63	426	1,295
Current accounts and deposits from customers	57,652	1,188	3,808	4,493	666	42,173	109,980
Derivative financial liabilities	89	-	8	-	-	1	98
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	-	4
Current tax liability	5	-	-	-	-	13	18
Other liabilities	281	2	11	85	2	1,341	1,722
Accrued expenses and deferred income	40	-	-	-	-	278	318
Interest-bearing borrowings and other financial liabilities	4,786	-	-	41	-	2,145	6,972
Senior non-preferred debt	827	-	-	-	-	-	827
Provisions	67	-	13	-	35	622	737
Deferred tax liabilities	26	-	-	-	1	55	82
Total liabilities	64,463	1,236	3,864	4,669	767	47,054	122,053
Net position	2,121	8	(546)	1,362	(34)	16,018	18,929

Notes to the financial statements (continued)

50 Currency risk (continued)

Group	(in HRK million)						Total
	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other cur- ren- cies	HRK	
As at 31 December 2020							
Assets							
Cash and current accounts with banks	8.063	173	313	1.179	572	16.702	27.002
Balances with the Croatian National Bank	-	-	-	-	-	4.035	4.035
Financial assets held for trading	240	-	33	-	-	996	1.269
Derivative financial assets	1	-	-	-	-	1	2
Fair value changes of the hedge items in portfolio hedge of interest rate risk	77	-	-	-	-	-	77
Loans and advances to banks	2.721	699	1.993	734	152	105	6.404
Loans and advances to customers	43.381	53	309	2.632	-	28.712	75.087
Investment securities	5.012	-	463	235	-	5.968	11.678
Investments in subsidiaries and associates	-	-	-	-	-	65	65
Other assets	51	-	-	21	4	185	261
Current tax assets	7	-	-	17	-	28	52
Property and equipment	238	-	-	92	-	1.460	1.790
Investment property	14	-	-	-	-	72	86
Non-current assets held for sale	49	-	-	-	-	16	65
Deferred tax assets	2	-	-	1	-	129	132
Intangible assets	65	-	-	20	-	232	317
Total assets	59.921	925	3.111	4.931	728	58.706	128.322
Liabilities							
Current accounts and deposits from banks	949	43	8	(13)	34	826	1.847
Current accounts and deposits from customers	54.043	899	3.378	3.840	676	36.625	99.461
Derivative financial liabilities	198	-	13	-	-	26	237
Other liabilities	225	-	12	109	4	1.260	1.610
Accrued expenses and deferred income	45	-	-	-	-	220	265
Interest-bearing borrowings and other financial liabilities	3.477	-	-	46	-	2.105	5.628
Provisions	73	-	13	-	43	424	553
Deferred tax liabilities	25	-	1	-	8	63	97
Total liabilities	59.035	942	3.425	3.982	765	41.549	109.698
Net position	886	(17)	(314)	949	(37)	17.157	18.624

Notes to the financial statements (continued)**50 Currency risk (continued)**

(in HRK million)

Bank	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other cur- ren- cies	HRK	Total
As at 31 December 2021							
Assets							
Cash and current accounts with banks	6,596	212	573	7	627	19,388	27,403
Balances with the Croatian National Bank	-	-	-	-	-	4,533	4,533
Financial assets held for trading	256	-	14	-	-	865	1,135
Derivative financial assets	3	-	-	-	-	34	37
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(3)	-	-	-	-	-	(3)
Loans and advances to banks	2,847	863	700	-	-	249	4,659
Loans and advances to customers	25,878	32	858	-	1	27,066	53,835
Investment securities	2,786	-	534	-	-	6,184	9,504
Investments in subsidiaries and associates	-	-	-	-	-	1,962	1,962
Other assets	9	-	-	-	-	110	119
Current tax assets	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	1,078	1,078
Investment property	-	-	-	-	-	24	24
Non-current assets held for sale	-	-	-	-	-	8	8
Deferred tax assets	-	-	-	-	-	83	83
Intangible assets	-	-	-	-	-	252	252
Total assets	38,372	1,107	2,679	7	628	61,836	104,629
Liabilities							
Current accounts and deposits from banks	963	61	24	-	64	799	1,911
Current accounts and deposits from customers	34,537	1,036	3,183	3	555	41,798	81,112
Derivative financial liabilities	-	-	-	-	-	1	1
Current tax liability	-	-	-	-	-	11	11
Other liabilities	70	2	9	-	1	632	714
Accrued expenses and deferred income	-	-	-	-	-	148	148
Interest-bearing borrowings and other financial liabilities	1,473	-	-	-	-	2,124	3,597
Senior non-preferred debt	827	-	-	-	-	-	827
Provisions	22	-	13	-	13	617	665
Deferred tax liabilities	-	-	-	-	-	31	31
Total liabilities	37,892	1,099	3,229	3	633	46,161	89,017
Net position	480	8	(550)	4	(5)	15,675	15,612

Notes to the financial statements (continued)

50 Currency risk (continued)

(in HRK million)

Bank	EUR	CHF	USD	BAM	Other cur- rencies	HRK	Total
	and EUR linked	and CHF linked	and USD linked	and BAM linked			
As at 31 December 2020							
Assets							
Cash and current accounts with banks	4,024	156	77	5	463	16,700	21,425
Balances with the Croatian National Bank	-	-	-	-	-	4,035	4,035
Financial assets held for trading	240	-	33	-	-	996	1,269
Derivative financial assets	-	-	-	-	-	1	1
Loans and advances to banks	2,510	605	1,993	-	117	104	5,329
Loans and advances to customers	24,289	34	307	-	-	26,540	51,170
Investment securities	3,265	-	95	-	-	5,879	9,239
Investments in subsidiaries and associates	-	-	-	-	-	1,962	1,962
Other assets	4	-	-	-	4	121	129
Current tax assets	-	-	-	-	-	7	7
Property and equipment	-	-	-	-	-	1,033	1,033
Investment property	-	-	-	-	-	30	30
Non-current assets held for sale	-	-	-	-	-	13	13
Deferred tax assets	-	-	-	-	-	76	76
Intangible assets	-	-	-	-	-	206	206
Total assets	34,332	795	2,505	5	584	57,703	95,924
Liabilities							
Current accounts and deposits from banks	992	43	8	-	34	1,113	2,190
Current accounts and deposits from customers	32,816	756	2,794	3	531	36,255	73,155
Derivative financial liabilities	-	-	-	-	-	25	25
Other liabilities	134	-	7	-	2	619	762
Accrued expenses and deferred income	-	-	-	-	-	111	111
Interest-bearing borrowings and other financial liabilities	1,550	-	-	-	-	2,063	3,613
Provisions	27	-	13	-	23	417	480
Deferred tax liabilities	-	-	-	-	-	37	37
Total liabilities	35,519	799	2,822	3	590	40,640	80,373
Net position	(1,187)	(4)	(317)	2	(6)	17,063	15,551

Notes to the financial statements (continued)

51 Liquidity risk

Analysis of financial liabilities by remaining undiscounted contractual maturities

The tables below set out the remaining undiscounted contractual maturity of the Group's and Bank's financial liabilities as at 31 December 2021 and 31 December 2020.

Group	(in HRK million)						Total gross cash flows	Total carry- ing amou nt
	Up to 1 month	From 1 to 3 month s	From 3 month s to 1 year	From 1 to 5 years	Over 5 years			
As at 31 December 2021								
Liabilities								
Current accounts and deposits from banks	1,168	112	15	-	-	1,295	1,295	
Current accounts and deposits from customers	52,575	5,479	12,904	29,628	9,674	110,261	109,980	
Derivative financial liabilities	7	7	25	48	12	99	98	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	4	4	4	
Interest-bearing borrowings and other financial liabilities	506	630	208	4,094	1,312	6,750	6,972	
Senior non-preferred debt	-	-	-	852	-	852	827	
Lease liability	8	15	70	219	65	376	279	
Other liabilities*	2,514	62	158	105	27	2,866	2,877	
Total undiscounted financial liabilities	56,777	6,305	13,379	34,946	11,094	122,501	122,053	
Off-balance sheet contingent liabilities and commitments								
Undrawn lending commitments	2,492	2,050	10,811	3,094	481	18,928	18,928	
Other contingent liabilities	302	929	1,542	1,967	364	5,104	5,108	
Total undiscounted off-balance sheet contingent liabilities and commitments	2,794	2,979	12,353	5,061	845	24,032	24,036	

* Other liabilities include subordinated liabilities, other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Analysis of financial liabilities by remaining contractual maturities (continued)**

Group	(in HRK million)						Total gross cash flows	Total carrying amount
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years			
As at 31 December 2020								
Liabilities								
Current accounts and deposits from banks	1,310	302	233	2	-	1,847	1,847	
Current accounts and deposits from customers	31,202	6,287	13,684	36,059	13,054	100,287	99,461	
Derivative financial liabilities	14	10	4	36	173	237	237	
Interest-bearing borrowings and other financial liabilities	349	651	776	2,481	1,160	5,417	5,344	
Lease liability	6	11	48	172	51	288	284	
Other liabilities*	2,175	69	143	115	29	2,531	2,525	
Total undiscounted financial liabilities	35,056	7,330	14,890	38,863	14,467	110,607	109,698	
Off-balance sheet contingent liabilities and commitments								
Undrawn lending commitments	2,450	1,995	10,096	2,645	848	18,034	18,034	
Other contingent liabilities	248	817	1,303	1,596	403	4,367	4,367	
Total undiscounted off-balance sheet contingent liabilities and commitments	2,698	2,812	11,399	4,241	1,251	22,401	22,401	

* Other liabilities include subordinated liabilities, other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Analysis of financial liabilities by remaining contractual maturities (continued)**

(in HRK million)

Bank	Up to 1 month	From 1 to 3 month s	From 3 month s to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carry- ing amou nt
As at 31 December 2021							
Liabilities							
Current accounts and deposits from banks	1,275	1	638	-	-	1,914	1,911
Current accounts and deposits from customers	39,193	2,283	7,799	23,178	8,996	81,449	81,112
Derivative financial liabilities	-	1	-	-	-	1	1
Interest-bearing borrowings and other financial liabilities	329	23	196	1,899	904	3,351	3,291
Senior non-preferred debt	-	-	-	852	-		827
Lease liability	6	12	55	186	53	312	306
Other liabilities*	1,335	22	142	43	27	1,569	1,569
Total undiscounted financial liabilities	42,138	2,342	8,830	26,158	9,980	88,596	89,017
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	1,133	1,703	9,161	1,954	481	14,432	14,432
Other contingent liabilities	247	597	980	1,524	342	3,690	3,690
Total undiscounted off-balance sheet contingent liabilities and commitments	1,380	2,300	10,141	3,478	823	18,122	18,122

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Analysis of financial liabilities by remaining contractual maturities (continued)**

(in HRK million)

Bank							Total	Total
As at 31 December 2020	Up to 1 month	From 1 to 3 month s	From 3 month s to 1 year	From 1 to 5 years	Over 5 years	gross cash flows	carry- ing amou nt	
Liabilities								
Current accounts and deposits from banks	1,318	1	68	818	-	2,205	2,190	
Current accounts and deposits from customers	21,306	2,872	8,239	28,969	12,412	73,798	73,155	
Derivative financial liabilities	11	10	4	-	-	25	25	
Interest-bearing borrowings and other financial liabilities	346	26	232	1,865	881	3,350	3,293	
Lease liability	5	11	47	188	72	323	320	
Other liabilities*	1,162	18	145	43	24	1,392	1,390	
Total undiscounted financial liabilities	24,148	2,938	8,735	31,883	13,389	81,093	80,373	
Off-balance sheet contingent liabilities and commitments								
Undrawn lending commitments	1,129	1,730	9,014	1,737	423	14,033	14,033	
Other contingent liabilities	168	589	1,004	1,226	334	3,321	3,320	
Total undiscounted off-balance sheet contingent liabilities and commitments	1,297	2,319	10,018	2,963	757	17,354	17,353	

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Maturity analysis of assets and liabilities

The tables below present analyses of assets and liabilities of the Group and Bank according to their expected maturities at 31 December 2021 and 31 December 2020. The Group's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable balance and are not all expected to be drawn immediately.

The Group and the Bank made certain assumptions in producing the maturity analyses set out below. The assumptions applied for loans and advances to customers were mostly based on contractual maturities, whilst overdraft, revolving and other facilities without precise amortisation plans were assumed to be recoverable within 12 months. Moreover, expected maturities for current accounts and deposits from customers and to some extent non-performing loans were based on statistical behaviour model as of past experience. All other items of the Group and the Bank were mostly based on contractual maturities.

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Maturity analysis of assets and liabilities (continued)**

(in HRK million)

Group

As at 31 December 2021	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	35,885	-	35,885
Balances with the Croatian National Bank	4,533	-	4,533
Financial assets held for trading	436	699	1,135
Derivative financial assets	34	9	43
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(3)	34	31
Loans and advances to banks	5,769	461	6,230
Loans and advances to customers	20,135	58,544	78,679
Investment securities	6,330	5,420	11,750
Investments in subsidiaries and associates	-	66	66
Other assets	161	45	206
Current tax assets	15	15	30
Property and equipment	-	1,791	1,791
Investment property	-	74	74
Non-current assets held for sale	15	8	23
Deferred tax assets	115	21	136
Intangible assets	-	370	370
Total assets	73,425	67,557	140,982
Liabilities			
Current accounts and deposits from banks	1,295	-	1,295
Current accounts and deposits from customers	70,958	39,022	109,980
Derivative financial liabilities	38	60	98
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	4	4
Current tax liability	18	-	18
Other liabilities	1,715	7	1,722
Accrued expenses and deferred income	312	6	318
Interest-bearing borrowings and other financial liabilities	1,424	5,548	6,972
Senior non-preferred debt	-	827	827
Provisions	646	91	737
Deferred tax liabilities	70	12	82
Total liabilities	76,476	45,577	122,053
Net expected maturity gap	(3,051)	21,980	18,929

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Maturity analysis of assets and liabilities (continued)**

(in HRK million)

Group	Less than 12 months	Over 12 months	Total
As at 31 December 2020			
Assets			
Cash and current accounts with banks	27,002	-	27,002
Balances with the Croatian National Bank	4,533	-	4,035
Financial assets held for trading	143	1,126	1,269
Derivative financial assets	2	-	2
Fair value changes of the hedge items in portfolio hedge of interest rate risk	-	77	77
Loans and advances to banks	6,402	2	6,404
Loans and advances to customers	19,598	55,489	75,087
Investment securities	8,675	3,003	11,678
Investments in subsidiaries and associates	-	65	65
Other assets	214	47	261
Current tax assets	34	18	52
Property and equipment	-	1,790	1,790
Investment property	-	86	86
Non-current assets held for sale	51	14	65
Deferred tax assets	109	23	132
Intangible assets	-	317	317
Total assets	66,265	62,057	128,322
Liabilities			
Current accounts and deposits from banks	1,847	-	1,847
Current accounts and deposits from customers	51,170	48,291	99,461
Derivative financial liabilities	28	209	237
Other liabilities	1,604	6	1,610
Accrued expenses and deferred income	257	8	265
Interest-bearing borrowings and other financial liabilities	1,603	4,025	5,628
Provisions	497	56	553
Deferred tax liabilities	85	12	97
Total liabilities	57,091	52,607	109,698
Net expected maturity gap	9,174	9,450	18,624

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Maturity analysis of assets and liabilities (continued)**

(in HRK million)

Bank

As at 31 December 2021	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	27,403	-	27,403
Balances with the Croatian National Bank	4,533	-	4,533
Financial assets held for trading	435	700	1,135
Derivative financial assets	34	3	37
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(3)	-	(3)
Loans and advances to banks	4,659	-	4,659
Loans and advances to customers	12,742	41,093	53,835
Investment securities	6,138	3,366	9,504
Investments in subsidiaries and associates	-	1,962	1,962
Other assets	100	19	119
Property and equipment	-	1,078	1,078
Investment property	-	24	24
Non-current assets held for sale	-	8	8
Deferred tax assets	83	-	83
Intangible assets	-	252	252
Total assets	56,124	48,505	104,629
Liabilities			
Current accounts and deposits from banks	1,911	-	1,911
Current accounts and deposits from customers	49,275	31,837	81,112
Derivative financial liabilities	1	-	1
Current tax liability	11	-	11
Other liabilities	707	7	714
Accrued expenses and deferred income	142	6	148
Interest-bearing borrowings and other financial liabilities	620	2,977	3,597
Senior non-preferred debt	-	827	827
Provisions	607	58	665
Deferred tax liabilities	31	-	31
Total liabilities	53,305	35,712	89,017
Net expected maturity gap	2,819	12,793	15,612

Notes to the financial statements (continued)**51 Liquidity risk (continued)****Maturity analysis of assets and liabilities (continued)**

(in HRK million)

Bank

As at 31 December 2020	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	21,425	-	21,425
Balances with the Croatian National Bank	4,035	-	4,035
Financial assets held for trading	143	1,126	1,269
Derivative financial assets	1	-	1
Loans and advances to banks	5,329	-	5,329
Loans and advances to customers	11,984	39,186	51,170
Investment securities	7,569	1,670	9,239
Investments in subsidiaries and associates	-	1,962	1,962
Intangible assets	-	206	206
Property and equipment	-	1,033	1,033
Investment property	-	30	30
Non-current assets held for sale	-	13	13
Deferred tax assets	76	-	76
Other assets	102	27	129
Tax prepayments	7	-	7
Total assets	50,671	45,253	95,924
Liabilities			
Current accounts and deposits from banks	1,387	803	2,190
Current accounts and deposits from customers	32,417	40,738	73,155
Derivative financial liabilities	25	-	25
Other liabilities	757	5	762
Accrued expenses and deferred income	103	8	111
Interest-bearing borrowings and other financial liabilities	413	3,200	3,613
Provisions	426	54	480
Deferred tax liabilities	37	-	37
Total liabilities	35,565	44,808	80,373
Net expected maturity gap	15,106	445	15,551

Notes to the financial statements (continued)

52 Concentration of assets and liabilities

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's and the Group's assets and liabilities can be analysed by the following geographical regions and industry sector:

(in HRK million)

	GROUP			BANK		
	Assets	Liabilities	Off balance sheet liabilities	Assets	Liabilities	Off balance sheet liabilities
As at 31 December 2021						
Geographic region						
Republic of Croatia	99,240	85,877	16,857	96,081	84,287	16,662
Other European Union members	29,572	26,747	4,684	5,682	2,577	1,026
Other countries	12,170	9,429	2,495	2,866	2,153	434
	140,982	122,053	24,036	104,629	89,017	18,122
Industry sector						
Citizens	40,374	73,600	9,175	28,295	54,523	7,632
Finance	27,854	13,046	388	19,753	9,404	719
Government	18,274	2,693	410	14,201	1,277	362
Commerce	4,853	5,243	2,998	2,157	3,837	1,542
Tourism	2,343	1,884	72	2,086	1,541	22
Agriculture	830	538	122	697	480	100
Other sectors	46,454	25,049	10,871	37,440	17,955	7,745
	140,982	122,053	24,036	104,629	89,017	18,122
As at 31 December 2020						
Geographic region						
Republic of Croatia	92,290	77,517	15,622	88,263	76,610	15,670
Other European Union members	23,690	23,010	4,033	3,094	1,158	1,055
Other countries	12,342	9,171	2,746	4,567	2,605	628
	128,322	109,698	22,401	95,924	80,373	17,353
Industry sector						
Citizens	39,415	67,116	8,685	27,972	49,189	7,139
Finance	21,538	12,169	468	16,054	9,641	957
Government	18,612	2,488	366	14,681	1,363	342
Commerce	5,018	4,969	2,755	2,295	3,743	1,502
Tourism	2,644	1,160	460	2,327	953	435
Agriculture	752	310	174	629	268	139
Other sectors	40,343	21,486	9,493	31,966	15,216	6,839
	128,322	109,698	22,401	95,924	80,373	17,353

53 Subsequent events

After the reporting date, as an event subsequent to the end of 2021 that does not give rise to adjustments in relation to that year, on 24 February 2022 a military conflict broke out between Russia and Ukraine. The Group has business and loan relationships with companies that are owned by Russian individuals or companies, have intensive business on Russian market or have major Russian suppliers. The situation with those clients will continue to be carefully monitored in relation to the evolution of the political situation, which, due to the relatively small exposure, is not likely to affect the Group's earnings and financial prospects. The Group will also carefully monitor any decisions taken at EU and international level, which it will comply with, as well as their possible impact on the Group's operations with Russian counterparties, in relation to which it is not currently possible to make any forecasts.

With the aim of further optimisation of the PBZ Group structure, due to simplification in the governance process and IT infrastructure, management of the Group decided to merge PBZ stambena štedionica into the Bank. The merger shall take place during 2022 and PBZ stambena štedionica will cease to exist as an individual entity. The transaction will not have any effects to financial statements of the Group.

The National Assembly of Slovenia as the holder of legislative power in the Republic of Slovenia adopted the Law on the Limitation and Distribution of Currency Risk between Creditors and Borrowers in Swiss Francs (CHF law) on 2nd February 2022. The CHF law requires to the commercial banks to cover retail borrowers' losses in cases where instalment or total amount deviates from the initial repayment plan by more than 10 percent (currency cap) due to the change in the CHF exchange rate. Slovenian banks will lodge a petition/application for the review of the constitutionality of the Law due to breach of several rights and/or principles. The potential recognition of CHF related loss in Slovenian subsidiary would not be material for the financial statements of the Group.

Appendix 1 - Supplementary forms required by local regulation

Supplementary financial statements of the Group and the Bank prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021):

Form "Balance sheet"

	(in HRK million)			
	GROUP		BANK	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Assets				
Cash and deposits with the Croatian National Bank	29,871	23,501	27,403	21,425
<i>Cash in hand</i>	4,730	3,488	2,590	2,161
<i>Deposits with the Croatian National Bank</i>	23,735	18,796	23,738	19,264
<i>Other deposits</i>	1,406	1,217	1,075	-
Financial assets held for trading	1,171	1,271	1,169	1,270
<i>Derivatives</i>	36	2	34	1
<i>Equity instruments</i>	-	-	-	-
<i>Debt securities</i>	1,135	1,269	1,135	1,269
<i>Loans and advances</i>	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	88	103	62	74
<i>Equity instruments</i>	21	36	16	31
<i>Debt securities</i>	67	62	46	43
<i>Loans and advances</i>	-	5	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-
<i>Debt securities</i>	-	-	-	-
<i>Loans and advances</i>	-	-	-	-
Financial assets at fair value through other comprehensive income	9,679	11,134	7,483	8,742
<i>Equity instruments</i>	160	160	54	55
<i>Debt securities</i>	9,519	10,974	7,429	8,687
<i>Loans and advances</i>	-	-	-	-
Financial assets at amortised cost	97,475	89,548	65,028	60,999
<i>Debt securities</i>	1,982	453	1,958	429
<i>Loans and advances</i>	95,493	89,095	63,070	60,570
Derivatives – Hedge accounting	7	-	3	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in HRK million)

	GROUP		BANK	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Assets				
Fair value changes of the hedged items in portfolio hedge of interest rate risk	31	77	(3)	-
Investments in subsidiaries, joint ventures and associates	66	65	1,962	1,962
Tangible assets	1,866	1,876	1,102	1,063
Intangible assets	370	317	252	206
Tax assets	166	184	83	83
Other assets	210	223	120	129
Non-current assets and disposal groups classified as held for sale	23	65	8	13
Total assets	141,023	128,364	104,672	95,966

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in HRK million)

	GROUP		BANK	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Liabilities				
Financial liabilities held for trading	3	27	1	25
<i>Derivatives</i>	3	27	1	25
<i>Short positions</i>	-	-	-	-
<i>Deposits</i>	-	-	-	-
<i>Debt securities issued</i>	-	-	-	-
<i>Other financial liabilities</i>	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
<i>Deposits</i>	-	-	-	-
<i>Debt securities issued</i>	-	-	-	-
<i>Other financial liabilities</i>	-	-	-	-
Financial liabilities measured at amortised cost	119,310	107,046	87,657	78,958
<i>Deposits</i>	118,756	106,614	87,115	78,615
<i>Debt securities issued</i>	-	-	-	-
<i>Other financial liabilities</i>	554	432	542	343
Derivatives – Hedge accounting	95	210	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-
Provisions	780	595	708	525
Tax liabilities	100	97	42	37
Share capital repayable on demand	-	-	-	-
Other liabilities	1,804	1,764	652	873
Liabilities included in disposal groups classified as held for sale	-	-	-	-
Total liabilities	122,096	109,739	89,060	80,418

Appendix 1 - Supplementary forms required by local regulation (continued)**Form "Balance sheet" (continued)**

(in HRK million)

	GROUP		BANK	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Equity				
Share capital	1,907	1,907	1,907	1,907
Share premium	1,570	1,570	1,570	1,570
Equity instruments issued other than capital	-	-	-	-
Other equity	-	-	-	-
Accumulated other comprehensive income	3	41	(4)	23
Retained earnings	12,634	12,755	10,698	10,868
Revaluation reserves	323	327	157	161
Other reserves	229	(53)	443	273
(-) Treasury shares	(278)	(70)	(274)	(68)
Profit or loss attributable to owners of the parent	1,338	978	1,114	817
(-) Interim dividends	-	-	-	-
Minority interests [Non-controlling interests]	1,203	1,169	-	-
Total equity	18,929	18,624	15,611	15,551
Total liabilities and equity	141,025	128,363	104,671	95,969
Total equity	18,929	18,624	15,611	15,551
Equity holders of the Bank	17,726	17,455	15,611	15,551
Non-controlling interests	1,203	1,169	-	-

The balance sheet form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2021

Assets	Per IFRS															(in HRK million)		
	Group	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets		Other assets	Tax prepayments
CNB schedules																		
Cash and deposits with the Croatian National Bank	29,871	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,871
<i>Cash in hand</i>	4,730	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,730
<i>Deposits with the Croatian National Bank</i>	23,735	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,735
<i>Other deposits</i>	1,406	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,406
Financial assets held for trading	-	-	1,135	36	-	-	-	-	-	-	-	-	-	-	-	-	-	1,171
<i>Derivatives</i>	-	-	-	36	-	-	-	-	-	-	-	-	-	-	-	-	-	36
<i>Equity instruments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities</i>	-	-	1,135	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,135
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	88	-	-	-	-	-	-	-	-	-	88
<i>Equity instruments</i>	-	-	-	-	-	-	-	21	-	-	-	-	-	-	-	-	-	21
<i>Debt securities</i>	-	-	-	-	-	-	-	67	-	-	-	-	-	-	-	-	-	67

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021(continued)

Assets (continued)

Per IFRS

(in HRK million)

Group

	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax pre-payments	Total assets
CNB schedules																	
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	9,679	-	-	-	-	-	-	-	-	-	9,679
<i>Equity instruments</i>	-	-	-	-	-	-	160	-	-	-	-	-	-	-	-	-	160
<i>Debt securities</i>	-	-	-	-	-	-	9,519	-	-	-	-	-	-	-	-	-	9,519
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)
Balance sheet reconciliation as at 31 December 2021 (continued)
Assets (continued)

Per IFRS

(in HRK million)

Group

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Per IFRS		Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
						Loans and advances to banks	Loans and advances to customers										
Financial assets at amortised cost	6,014	4,533	-	-	-	6,230	78,722	1,982	-	-	-	-	-	-	(6)	-	97,475
<i>Debt securities</i>	-	-	-	-	-	-	-	1,982	-	-	-	-	-	-	-	-	1,982
<i>Loans and advances</i>	6,014	4,533	-	-	-	6,230	78,722	-	-	-	-	-	-	-	(6)	-	95,493
Derivatives – Hedge accounting	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	7
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	31	-	-	-	-	-	-	-	-	-	-	-	31
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	66	-	-	-	-	-	-	-	66

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Assets (continued)

Per IFRS

(in HRK million)

Group

CNB sched- ules	Cash and current ac- counts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Deriv- ative finan- cial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Invest-ment securities	Invest- ments in associ- ates	Intangi- ble assets	Property and equip- ment	Invest- ment prop- erty	Non- cur- rent assets held for sale	De- ferred tax assets	Other as- sets	Tax pre- pay- ments	Total assets
Tangi- ble as- sets	-	-	-	-	-	-	-	-	-	-	1,791	74	-	-	-	-	1,865
Intangi- ble as- sets	-	-	-	-	-	-	-	-	-	370	-	-	-	-	-	-	370
Tax as- sets	-	-	-	-	-	-	-	-	-	-	-	-	-	136	-	30	166
Other assets	-	-	-	-	-	-	-	1	-	-	-	-	-	-	209	-	210
Non- current assets and dis- posal groups classi- fied as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	23	-	-	-	23
Transfer to provi- sions	-	-	-	-	-	-	(43)	-	-	-	-	-	-	-	3	-	(40)
Total assets	35,885	4,533	1,135	43	31	6,230	78,679	11,750	66	370	1,791	74	23	136	206	30	140,982

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Liabilities

Per IFRS

(in HRK million)

Group

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
Financial liabilities held for trading	-	-	3	-	-	-	-	-	-	-	-	3
<i>Derivatives</i>	-	-	3	-	-	-	-	-	-	-	-	3
<i>Short positions</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Deposits</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities issued</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial liabilities</i>	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
<i>Deposits</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities issued</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial liabilities</i>	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1,295	109,980	-	-	6,972	827	236	-	-	-	-	119,310
<i>Deposits</i>	1,295	109,426	-	-	6,972	827	236	-	-	-	-	118,756
<i>Debt securities issued</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial liabilities</i>	-	554	-	-	-	-	-	-	-	-	-	554
Derivatives – Hedge accounting	-	-	95	-	-	-	-	-	-	-	-	95

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Liabilities (continued)

Per IFRS

(in HRK million)

Group

	Current ac- counts and deposits from banks	Current ac- counts and deposits from customers	Derivative fi- nancial liabil- ities	Fair value changes of the hedged items in port- folio hedge	Interest-bear- ing borrow- ings	Subordinated liabilities	Other liabilities	Accrued ex- penses and deferred in- come	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
CNB schedules												
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	4	-	-	-	-	-	-	-	4
Provisions	-	-	-	-	-	-	-	-	780	-	-	780
Tax liabilities	-	-	-	-	-	-	-	-	-	82	18	100
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	1,486	318	-	-	-	1,804
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(43)	-	-	(43)
Total liabilities	1,295	109,980	98	4	6,972	827	1,722	318	737	82	18	122,053

Appendix 1 - Supplementary forms required by local regulation (continued)**Balance sheet reconciliation as at 31 December 2021 (continued)****Equity**

Per IFRS

(in HRK million)

Group

CNB schedules	Share capital	Share pre- mium	Treasury shares	Other re- serves	Fair value reserve	Retained earnings	Merger re- serve	Non-control- ing interests	Total equity
Share capital	1,907	-	-	-	-	-	-	-	1,907
Share premium	-	1,570	-	-	-	-	-	-	1,570
Equity instruments issued other than capital	-	-	-	-	-	-	-	-	-
Other equity	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	3	-	-	-	3
Retained earnings	-	-	-	-	-	12,634	-	-	12,634
Revaluation reserves	-	-	-	323	-	-	-	-	323
Other reserves	-	-	-	1,443	-	-	(1,214)	-	229
(-) Treasury shares	-	-	(278)	-	-	-	-	-	(278)
Profit or loss at- tributable to own- ers of the parent	-	-	-	-	-	1,338	-	-	1,338
(-) Interim dividends	-	-	-	-	-	-	-	-	-
Minority interests [Non-controlling interests]	-	-	-	-	-	-	-	1,203	1,203
Total equity	1,907	1,570	(278)	1,766	3	13,972	(1,214)	1,203	18,929

Appendix 1 - Supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2021

Assets

Bank	Per IFRS															(in HRK million)	
	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
CNB schedules																	
Cash and deposits with the Croatian National Bank	27,403	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,403
<i>Cash in hand</i>	2,590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,590
<i>Deposits with the Croatian National Bank</i>	23,738	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,738
<i>Other deposits</i>	1,075	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,075
Financial assets held for trading	-	-	1,135	34	-	-	-	-	-	-	-	-	-	-	-	-	1,169
<i>Derivatives</i>	-	-	-	34	-	-	-	-	-	-	-	-	-	-	-	-	34
<i>Equity instruments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities</i>	-	-	1,135	-	-	-	-	-	-	-	-	-	-	-	-	-	1,135
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	62	-	-	-	-	-	-	-	-	62

Appendix 1 - Supplementary forms required by local regulation (continued)
Balance sheet reconciliation as at 31 December 2021 (continued)
Assets (continued)

Per IFRS

(in HRK million)

Bank

	Cash and current accounts with banks	Balances with the Croatian Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
CNB schedules																	
<i>Equity instruments</i>	-	-	-	-	-	-	-	16	-	-	-	-	-	-	-	-	16
<i>Debt securities</i>	-	-	-	-	-	-	-	46	-	-	-	-	-	-	-	-	46
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss																	
<i>Debt securities</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income																	
<i>Equity instruments</i>	-	-	-	-	-	-	-	7,483	-	-	-	-	-	-	-	-	7,483
<i>Debt securities</i>	-	-	-	-	-	-	-	7,429	-	-	-	-	-	-	-	-	7,429
<i>Loans and advances</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Assets (continued)

Per IFRS

(in HRK million)

Bank

	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
CNB schedules																	
Financial assets at amortised cost	-	4,533	-	-	-	4,659	53,878	1,958	-	-	-	-	-	-	-	-	65,028
<i>Debt securities</i>	-	-	-	-	-	-	-	1,958	-	-	-	-	-	-	-	-	1,958
<i>Loans and advances</i>	-	4,533	-	-	-	4,659	53,878	-	-	-	-	-	-	-	-	-	63,070
Derivatives – Hedge accounting	-	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	3
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	(3)	-	-	-	-	-	-	-	-	-	-	-	(3)
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	1,962	-	-	-	-	-	-	-	1,962
Tangible assets	-	-	-	-	-	-	-	-	-	-	1,078	24	-	-	-	-	1,102

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Assets (continued)

Per IFRS

(in HRK million)

Bank	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio	hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
Intangible assets	-	-	-	-	-	-	-	-	-	-	252	-	-	-	-	-	-	252
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	83	-	-	83
Other assets	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	119	-	120
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	8	-	-	-	8
Transfer to provisions	-	-	-	-	-	-	-	(43)	-	-	-	-	-	-	-	-	-	(43)
Total assets	27,403	4,533	1,135	37	(3)	4,659	53,835	9,504	1,962	252	1,078	24	8	83	119	-	-	104,629

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Liabilities

Per IFRS

(in HRK million)

Bank

CNB schedules	Current ac- counts and deposits from banks	Current ac- counts and deposits from custom- ers	Derivative fi- nancial liabilities	Fair value changes of the hedged items in port- folio hedge	Interest-bear- ing borrow- ings	Subordinated liabilities	Other liabilities	Accrued ex- penses and deferred in- come	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
Financial liabilities held for trading	-	-	1	-	-	-	-	-	-	-	-	1
<i>Derivatives</i>	-	-	1	-	-	-	-	-	-	-	-	1
<i>Short positions</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Deposits</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities issued</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial liabilities</i>	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
<i>Deposits</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Debt securities issued</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial liabilities</i>	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1,911	81,112	-	-	3,597	827	210	-	-	-	-	87,657
<i>Deposits</i>	1,906	81,112	-	-	3,270	827	-	-	-	-	-	87,115
<i>Debt securities issued</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial liabilities</i>	5	-	-	-	327	-	210	-	-	-	-	542
Derivatives – Hedge account- ing	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2021 (continued)

Liabilities (continued)

Bank	Per IFRS											(in HRK million)
	Current ac- counts and deposits from banks	Current ac- counts and deposits from customers	Derivative fi- nancial liabil- ities	Fair value changes of the hedged items in port- folio hedge	Interest-bear- ing borrow- ings	Subordinated liabilities	Other liabilities	Accrued ex- penses and deferred in- come	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
CNB schedules												
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	708	-	-	708
Tax liabilities	-	-	-	-	-	-	-	-	-	31	11	42
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	504	148	-	-	-	652
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(43)	-	-	(43)
Total liabilities	1,911	81,112	1	-	3,597	827	714	148	665	31	11	89,017

Appendix 1 - Supplementary forms required by local regulation (continued)**Balance sheet reconciliation as at 31 December 2021 (continued)****Equity**

Per IFRS

(in HRK million)

Bank

CNB schedules	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interests	Total equity
Share capital	1,907	-	-	-	-	-	-	-	1,907
Share premium	-	1,570	-	-	-	-	-	-	1,570
Equity instruments issued other than capital	-	-	-	-	-	-	-	-	-
Other equity	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	(4)	-	-	-	(4)
Retained earnings	-	-	-	-	-	10,698	-	-	10,698
Revaluation reserves	-	-	-	157	-	-	-	-	157
Other reserves	-	-	-	443	-	-	-	-	443
(-) Treasury shares	-	-	(274)	-	-	-	-	-	(274)
Profit or loss attributable to owners of the parent	-	-	-	-	-	1,115	-	-	1,115
(-) Interim dividends	-	-	-	-	-	-	-	-	-
Minority interests [Non-controlling interests]	-	-	-	-	-	-	-	-	-
Total equity	1,907	1,570	(274)	600	(4)	11,813	-	-	15,612

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement"

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Interest income	2,739	2,819	2,079	2,166
(Interest expense)	(213)	(228)	(130)	(142)
(Expenses on share capital repayable on demand)	-	-	-	-
Dividend income	1	1	122	40
Fee and commission income	1,863	1,706	998	906
(Fee and commission expenses)	(381)	(323)	(254)	(208)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	195	101	189	69
Gains or (-) losses on financial assets and liabilities held for trading, net	289	206	278	204
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4	21	2	14
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-
Gains or (-) losses from hedge accounting, net	1	(10)	-	-
Exchange differences [gain or (-) loss], net	(33)	3	(43)	(14)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	11	-	1	-
Other operating income	151	155	57	54
(Other operating expenses)	(342)	(368)	(124)	(131)
Total operating income, net	4,285	4,083	3,175	2,958
(Administrative expenses)	(1,741)	(1,757)	(1,159)	(1,167)
(Payment commitments to resolution funds and deposit guarantee schemes)	(63)	(181)	(31)	(143)
(Depreciation)	(254)	(238)	(185)	(175)
Modification gains or (-) losses, net	(9)	(1)	(3)	(1)
(Provisions or (-) reversal of provisions)	(247)	7	(239)	1
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(267)	(619)	(204)	(442)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
(Impairment or (-) reversal of impairment on non-financial assets)	(12)	(33)	(7)	(21)
Negative goodwill recognised in profit or loss	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	11	10	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	12	21	4	24
Profit or (-) loss before tax from continuing operations	1,715	1,292	1,351	1,034
(Tax expense or (-) income related to profit or loss from continuing operations)	(312)	(267)	(236)	(217)
Profit or (-) loss before after from continuing operations	1,403	1,025	1,115	817
Profit or (-) loss after tax from discontinued operations				
Profit or (-) loss before tax from discontinued operations		-	-	-
(Tax expense or (-) income related to discontinued operations)		-	-	-
Profit or (-) loss for the year	1,403	1,025	1,115	817
Attributable to minority interest [non-controlling interests]	65	47	-	-
Attributable to owners of the parent	1,338	978	1,115	817

The income statement form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Net profit for the year	1,403	1,025	1,115	817
Other comprehensive income	(50)	-	(27)	-
Items that will not be reclassified to profit or loss	(1)	146	-	73
Tangible assets	(4)	171	(1)	83
Intangible assets	-	-	-	-
Actuarial gains (losses) on defined benefit pensions plans	-	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-
Share of other recognized revenues and costs from entities accounted by equity method	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	1	7	-	5
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-
Income tax relating to items that will not be reclassified	2	(32)	1	(15)
Items that are or may be reclassified to profit or loss	(49)	22	(27)	(14)
Hedge of net investments in foreign operations [effective portion]	-	-	-	-
Foreign currency translation	(10)	38	-	-
Cash flow hedges [effective portion]	-	-	-	-
Hedging instruments [not designated elements]	-	-	-	-
Debt instruments at fair value through other comprehensive income	(46)	(21)	(33)	(17)
Non-current assets and disposal groups held for sale	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2021	2020	2021	2020
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates	-	-	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	7	5	6	3
Total comprehensive income for the year	1,353	1,193	1,088	876
Attributable to:				
Equity holders of the Bank	1,294	1,127	1,088	876
Non-controlling interests	59	66	-	-
	1,353	1,193	1,088	876

Appendix 1 - Supplementary forms required by local regulation (continued)**Income statement reconciliation for the year ended 31 December 2021**

Group

Per IFRS

(in HRK million)

CNB schedules	Inter- est in- come	Interest expense	Fee and commisi- on in- come	Fee and com- mis- sion ex- pense	Dividend income	Net trading income/(ex- pense) and net gains/(losse s) on trans- lation of monetary assets and liabilities	Fair value adjust- ment in hedge account- ing	Other operat- ing in- come	Net im- pairment loss on loans and advances to cus- tomers	Other im- pairment losses and pro- visions	Per- sonnel ex- penses	Deprecia- tion and amortiza- tion	Other operat- ing ex- penses	Share of profits from as- sociates	Income tax expense	Profit for the year
(Interest expense)	-	(213)	-	-	-	-	-	-	-	-	-	-	-	-	-	(213)
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1
Fee and commission in- come	-	-	1.863	-	-	-	-	-	-	-	-	-	-	-	-	1.863
(Fee and commission ex- penses)	-	-	-	(381)	-	-	-	-	-	-	-	-	-	-	-	(381)
Gains or (-) losses on de- recognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	-	-	-	(2)	197	-	-	-	-	-	-	195
Gains or (-) losses on fi- nancial assets and liabili- ties held for trading, net	-	-	-	-	-	289	-	-	-	-	-	-	-	-	-	289
Gains or (-) losses on non- trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	4	-	-	-	-	-	-	-	-	-	4

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2021 (continued)

Group

CNB schedules	Per IFRS												(in HRK million)			
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	Profit for the year
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	1
Exchange differences [gain or (-) loss], net	-	-	-	-	-	(33)	-	-	-	-	-	-	-	-	-	(33)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	11	-	-	-	-	-	-	-	11
Other operating income	-	-	-	-	-	-	-	133	-	-	-	-	18	-	-	151
(Other operating expenses)	-	-	-	-	-	-	-	-	-	-	-	(342)	-	-	-	(342)
Total operating income, net	2.739	(213)	1.863	(381)	1	260	1	142	197	-	-	-	(324)	-	-	4.285
(Administrative expenses)	-	-	-	-	-	-	-	(50)	-	(17)	(1.048)	-	(626)	-	-	(1.741)

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2021 (continued)

Group

CNB schedules	Per IFRS														(in HRK million)	
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	Profit for the year
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-	-	-	-	-	-	-	-	-	-	-	(63)	-	-	(63)
(Depreciation)	-	-	-	-	-	-	-	-	-	-	(254)	-	-	-	-	(254)
Modification gains or (-) losses, net	-	-	-	-	-	-	-	(9)	-	-	-	-	-	-	-	(9)
(Provisions or (-) reversal of provisions)	-	-	-	-	-	-	-	-	(247)	-	-	-	-	-	-	(247)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	2	14	-	-	-	-	-	(243)	(45)	-	-	-	5	-	-	(267)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2021 (continued)

Group	Per IFRS														(in HRK million)	
	Interest in- come	Interest expense	Fee and commission income	Fee and commission expense	Divi- dend in- come	Net trad- ing in- come/(e xpense) and net gains/(lo sses) on transla- tion of mone- tary as- sets and liabili- ties	Fair value ad- just- ment in hedge ac- counti- ng	Other op- erating income	Net im- pairment loss on loans and ad- vances to cus- tomers	Other im- pairment losses and provisions	Personnel expenses	Deprecia- tion and amortiza- tion	Other oper- ating ex- penses	Share of profits from associ- ates	Income tax ex- pense	Profit for the year
CNB schedules																
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	(12)	-	-	-	-	-	-	-	-	(12)
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	11	-	-	11
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	12	-	-	-	-	-	-	-	-	12
Profit or (-) loss before tax from continuing operations	2.741	(199)	1.863	(381)	1	260	1	92	(55)	(309)	(1.048)	(254)	(1.008)	11	-	1,715

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2021 (continued)

Group	Per IFRS													(in HRK million)		
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	Profit for the year
CNB schedules																
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(312)	(312)
Profit or (-) loss after tax from continuing operations	2,741	(199)	1,863	(381)	1	260	1	92	(55)	(309)	(1,048)	(254)	(1,008)	11	(312)	1,403
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss for the year	2,741	(199)	1,863	(381)	1	260	1	92	(55)	(309)	(1,048)	(254)	(1,008)	11	(312)	1,403

Appendix 1 - Supplementary forms required by local regulation (continued)**Income statement reconciliation for the year ended 31 December 2021 (continued)**

Bank	Per IFRS													(in HRK million)	
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Income tax expense	Profit for the year
CNB schedules															
Interest income	2,079	-	-	-	-	-	-	-	-	-	-	-	-	-	2,079
(Interest expense)	-	(130)	-	-	-	-	-	-	-	-	-	-	-	-	(130)
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	122	-	-	-	-	-	-	-	-	-	122
Fee and commission income	-	-	998	-	-	-	-	-	-	-	-	-	-	-	998
(Fee and commission expenses)	-	-	-	(254)	-	-	-	-	-	-	-	-	-	-	(254)
Gains or (-) losses on de-recognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	-	-	-	(2)	191	-	-	-	-	-	189
Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	278	-	-	-	-	-	-	-	-	278
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	2	-	-	-	-	-	-	-	-	2

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2021 (continued)

Bank

CNB schedules	Per IFRS													(in HRK million)	
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Income tax expense	Profit for the year
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences [gain or (-) loss], net	-	-	-	-	-	(43)	-	-	-	-	-	-	-	-	(43)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	1	-	-	-	-	-	-	1
Other operating income	-	-	-	-	-	-	-	39	-	-	-	-	18	-	57
(Other operating expenses)	-	-	-	-	-	-	-	-	-	-	-	-	(124)	-	(124)
Total operating income, net	2,079	(130)	998	(254)	122	237	-	38	191	-	-	-	(106)	-	3,175
(Administrative expenses)	-	-	-	-	-	-	-	-	-	(17)	(684)	-	(458)	-	(1,159)
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-	-	-	-	-	-	-	-	-	-	-	(31)	-	(31)
(Depreciation)	-	-	-	-	-	-	-	-	-	-	-	(185)	-	-	(185)

Appendix 1 - Supplementary forms required by local regulation (continued)**Income statement reconciliation for the year ended 31 December 2021 (continued)**

Bank

CNB schedules	Per IFRS													(in HRK million)	
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Income tax expense	Profit for the year
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	(3)	-	-	-	-	-	(3)
(Provisions or (-) reversal of provisions	-	-	-	-	-	-	-	-	-	(239)	-	-	-	-	(239)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	2	14	-	-	-	-	-	-	(178)	(45)	-	-	3	-	(204)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	(7)	-	-	-	-	-	-	(7)
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	-	4	-	-	-	-	-	-	4

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2021 (continued)

Bank	Per IFRS													(in HRK million)	
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Income tax expense	Profit for the year
CNB schedules															
Profit or (-) loss before tax from continuing operations	2,081	(116)	998	(254)	122	237	-	35	10	(301)	(684)	(185)	(592)	-	1,351
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	(236)	(236)
Profit or (-) loss after tax from continuing operations	2,081	(116)	998	(254)	122	237	-	35	10	(301)	(684)	(185)	(592)	(236)	1,115
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss for the year	2,081	(116)	998	(254)	122	237	-	35	10	(301)	(684)	(185)	(592)	(236)	1,115

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Cash flow statement"

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Cash flow from operating activities				
Profit/(loss) before tax	1,715	1,292	1,351	1,034
Adjustments:				
Impairment losses	526	645	450	462
Depreciation and amortization	254	239	185	175
Unrealised (gains)/losses on securities at fair value through profit or loss	(37)	44	(37)	50
(Gains)/losses from sale of tangible assets	(30)	(21)	(6)	(25)
Other (gains)/losses	9	1	3	1
Changes in assets and liabilities due to operating activities				
Deposits with the Croatian National Bank	(3,116)	(1,054)	(498)	865
Deposits with banking institutions and loans to financial institutions	352	(418)	(78)	(266)
Loans to other clients	(3,634)	(4,404)	(1,923)	(4,205)
Securities and other financial instruments at FVOCI	1,414	(292)	1,116	(630)
Securities and other financial instruments held for trading	132	111	132	102
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	-	-
Securities and other financial instruments mandatorily at FVTPL	20	(60)	17	(41)
Securities and other financial instruments at amortised cost	(1,455)	62	(1,493)	72
Other operating assets	(1,335)	(2,064)	(3,095)	(2,106)
Financial institutions deposits	534	89	(296)	552
Other clients demand deposits	(8,534)	8,297	5,454	5,352
Other clients savings deposits	(3,336)	3,959	3,325	3,957
Other clients term deposits	1,353	(2,670)	(822)	(2,043)
Derivative financial liabilities and other liabilities held for trading	(135)	88	(24)	23
Other liabilities	23,800	(161)	904	88
Interest received	2,779	2,889	2,088	2,180
Dividends received	-	-	-	-
Interest paid	(250)	(479)	(145)	(329)
(Income tax paid)	(278)	(386)	(225)	(273)
Net inflow/(outflow) of cash from operating activities	10,748	5,707	6,383	4,995

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Cash flow statement" (continued)

	(in HRK million)			
	GROUP		BANK	
	2021	2020	2021	2020
Investing activities				
Cash receipts from/(payments to acquire) tangible and intangible assets	(276)	(212)	(271)	(134)
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	-	-	-
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments held until maturity	-	-	-	-
Dividends received	1	1	122	40
Other receipts from/(payments for) investments	-	-	-	-
Net cash flow from investing activities	(275)	(211)	(149)	(94)
Financing activities	10,473	5,496	6,234	4,901
Net increase/(decrease) in received loans	(1,344)	186	(14)	76
Net increase/(decrease) in issued debt securities	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-
Proceeds from issue of share capital	-	-	-	-
(Dividends paid)	(817)	-	(817)	-
Other proceeds/(payments) from financing activities	(211)	-	(209)	-
Net cash flow from financing activities	(2,372)	186	(1,040)	76
Net increase/(decrease) in cash and cash equivalents	8,101	5,682	5,194	4,977
Cash and cash equivalents at the beginning of the year	31,877	26,234	26,345	21,407
Effect of foreign exchange differences on cash and cash equivalents	16	(39)	16	(39)
Cash and cash equivalents at the end of the year	39,994	31,877	31,555	26,345

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2021

	(in HRK million)					
	GROUP			BANK		
	CNB sched- ules	per IFRS	Differ- ences	CNB sched- ules	per IFRS	Differ- ences
Cash flow from operating activities						
Profit before income tax	1,715	1,715	-	1,351	1,351	-
Impairment losses on loans and advances to customers	-	55	55	-	(10)	(10)
Other impairment losses and provisions	-	309	309	-	301	301
Impairment losses	526	-	(526)	450	-	(450)
Gain on disposal of property and equipment and intangible assets	(30)	(30)	-	(6)	(6)	-
Depreciation and amortisation	254	254	-	185	185	-
Net losses from securities at fair value through profit or loss	(37)	22	59	(37)	25	62
Share of profits from associates	-	(11)	(11)	-	-	-
Net interest income	-	(2,542)	(2,542)	-	(1,965)	(1,965)
Net gain on disposal of associate	-	-	-	-	-	-
Net gain/loss on disposal of securities not measured at FVTPL	-	2	2	-	2	2
Dividend income	-	(1)	(1)	-	(122)	(122)
Other gains/(losses)	9	-	(9)	3	-	(3)
Cash flow from operating activities before changes in operating assets	2,437	(227)	(2,664)	1,946	(239)	(2,185)
(Increase)/decrease in operating assets			-			-
Balances with the Croatian National Bank	(3,116)	(502)	2,614	(498)	(502)	(4)
Loans and advances to banks	352	(584)	(936)	(78)	(105)	(27)
Loans and advances to customers	(3,634)	(3,774)	(140)	(1,923)	(2,773)	(850)
Financial assets at FVTPL and FVOCI	-	36	36	-	(129)	(129)
Securities and other financial instruments at FVOCI	1,414	-	(1,414)	1,116	-	(1,116)
Securities and other financial instruments held for trading	132	-	(132)	132	-	(132)
Securities and other financial instruments mandatorily at FVTPL	-	-	-	-	-	-
Securities and other financial instruments at amortised cost	20	-	(20)	17	-	(17)

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2021 (continued)

	(in HRK million)					
	GROUP			BANK		
	CNB sched- ules	per IFRS	Differ- ences	CNB sched- ules	per IFRS	Differ- ences
Other assets	(1,335)	170	1,505	(3,095)	21	3,116
Net (increase)/decrease in operating assets	(7,622)	(4,654)	2,968	(5,822)	(3,488)	2,334
Increase/(decrease) in operating liabilities			-			-
Current accounts and deposits from banks	534	(600)	(1,134)	(296)	(320)	(24)
Current accounts and deposits from customers	-	10,682	10,682	-	8,046	8,046
Other clients demand deposits	(8,534)	-	8,534	5,454	-	(5,454)
Other clients savings deposits	(3,336)	-	3,336	3,325	-	(3,325)
Other clients term deposits	1,353	-	(1,353)	(822)	-	822
Derivative financial liabilities and other liabilities held for trading	(135)	-	135	(24)	-	24
Other liabilities	23,800	774	(23,026)	904	(108)	(1,012)
Net increase/(decrease) in operating liabilities	13,682	10,856	(2,826)	8,541	7,618	(923)
Interest received	2,779	2,779	-	2,088	2,088	-
Interest paid	(250)	(250)	-	(145)	(145)	-
Dividends received	-	11	11	-	122	122
Net cash flow from operating activities	11,026	8,515	(2,511)	6,608	5,956	(652)
(Income tax paid)	(278)	(277)	1	(225)	(225)	-
Net inflow/(outflow) of cash from operating activities	10,748	8,238	(2,510)	6,383	5,731	(652)
Investing activities			-			-
Purchase of property and equipment and intangible assets	(276)	(356)	(80)	(271)	(293)	(22)
Disposal of property and equipment and intangible assets	-	(62)	(62)	-	(10)	(10)
Cash paid from sale of non-current assets held for sale	-	30	30	-	-	-
Dividends received	1	-	(1)	122	-	(122)
Other receipts from/(payments for) investments	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2021 (continued)

(in HRK million)

	GROUP			BANK		
	CNB sched- ules	per IFRS	Differ- ences	CNB sched- ules	per IFRS	Differ- ences
Net cash flow from investing activities	(275)	(388)	(113)	(149)	(303)	(154)
Financing activities						
Dividends paid	(817)	(817)	-	(817)	(817)	-
Increase in interest-bearing borrowings	(1,344)	1,387	2,731	(14)	894	908
Cash paid for IFRS 16 leases	-	(108)	(108)	-	(102)	
Other proceeds/(payments) from financing activities	(211)	-		(209)	-	
Purchase of treasury shares	-	(219)		-	(217)	
Proceeds from sale of treasury shares	-	8		-	8	
Net cash flow from financing activities	(2,372)	251	2,623	(1,040)	(234)	806
Net increase/(decrease) in cash and cash equivalents	8,101	8,101	-	5,194	5,194	-
Cash and cash equivalents as at 1 January	31,877	31,877	-	26,345	26,345	-
Effect of exchange rate fluctuations on cash held	16	16	-	16	16	-
Cash and cash equivalents at the end of the year	39,994	39,994	-	31,555	31,555	-

Appendix 1 - Supplementary forms required by local regulation (continued)**Form "Statement of changes in equity"****Group**

CNB schedules	Per IFRS											(in HRK million)		
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests Accumulated Other Comprehensive Income	Other items	Total
Balance at 1 January 2021	1,907	1,570	-	-	41	12,755	327	(53)	(70)	978	-	26	1,143	18,624
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2021	1,907	1,570	-	-	41	12,755	327	(53)	(70)	978	-	26	1,143	18,624
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	(817)	-	-	-	-	-	(817)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(219)	-	-	-	-	(219)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	(4)	-	-	-	-	-	(4)

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Group

	Per IFRS											(in HRK million)		
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Minority interests Other items	Total
CNB schedules														
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	159	-	819	-	(978)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	11	-	-	-	-	11
Other increase or (-) decrease in equity	-	-	-	-	-	(280)	(3)	290	-	-	-	-	(25)	(18)
Total comprehensive income for the year	-	-	-	-	(38)	-	(1)	(6)	-	1,338	-	(6)	65	1,352
Balance at 31 December 2021	1,907	1,570	-	-	3	12,634	323	229	(278)	1,338	-	20	1,183	18,929

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Group

CNB schedules	Per IFRS											(in HRK million)		
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Minority interests Other items	Total
Balance at 1 January 2020	1,907	1,570	-	-	92	10,991	201	(18)	(76)	1,652	-	7	1,096	17,422
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2020	1,907	1,570	-	-	92	10,991	201	(18)	(76)	1,652	-	7	1,096	17,422
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Group

CNB schedules	Per IFRS											(in HRK million)		Total
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests	Accumulated Other Comprehensive Income	
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	1,708	-	(62)	-	(1,652)	-	-	-	(6)
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	(1)	6	-	-	-	-	5
Other increase or (-) decrease in equity	-	-	-	-	(43)	56	(2)	-	-	-	-	-	-	11
Total comprehensive income for the year	-	-	-	-	(8)	-	128	28	-	978	-	19	47	1,192
Balance at 31 December 2020	1,907	1,570	-	-	41	12,755	327	(53)	(70)	978	-	26	1,143	18,624

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Bank	Per IFRS											(in HRK million)		
												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	Total
Balance at 1 January 2021	1,907	1,570	-	-	23	10,868	161	273	(68)	817	-	-	-	15,551
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2021	1,907	1,570	-	-	23	10,868	161	273	(68)	817	-	-	-	15,551
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	(817)	-	-	-	-	-	(817)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(217)	-	-	-	-	(217)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	(4)	-	-	-	-	-	(4)

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Bank	Per IFRS											(in HRK million)		
												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	Total
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	-	817	-	(817)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	11	-	-	-	-	11
Other increase or (-) decrease in equity	-	-	-	-	-	(170)	(4)	174	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(27)	-	-	-	-	1,115	-	-	-	1,088
Balance at 31 December 2021	1,907	1,570	-	-	(4)	10,698	157	443	(274)	1,115	-	-	-	15,612

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Bank	Per IFRS											(in HRK million)		
												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	Total
Balance at 1 January 2020	1,907	1,570	-	-	69	8,944	91	276	(76)	1,880	-	-	-	14,661
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2020	1,907	1,570	-	-	69	8,944	91	276	(76)	1,880	-	-	-	14,661
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	(1)	4	-	-	-	-	3

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Bank	Per IFRS											(in HRK million)		
												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	Total
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	1,880	-	-	-	(1,880)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	(2)	4	-	-	-	-	2
Other increase or (-) decrease in equity	-	-	-	-	(11)	44	70	-	-	-	-	-	-	103
Total comprehensive income for the year	-	-	-	-	(35)	-	-	-	-	817	-	-	-	782
Balance at 31 December 2020	1,907	1,570	-	-	23	10,868	161	273	(68)	817	-	-	-	15,551

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Appendix 1 - Supplementary forms required by local regulation (continued)

Main differences between statutory financial report and supplementary forms required by local regulation

The main differences between the Statements of financial position captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Loans and advances are separated to customers and banks in statutory financial statements, while in CNB schedule there is only aggregated category Loans and advances
- Obligatory reserve is disclosed within Balances with CNB in statutory financial statements and within Loans and advances in CNB schedule

The main differences between the Income statement captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Effects arising from unwinding of discount related to loss allowance (“time value”) are disclosed as interest income in statutory financial statements, while in CNB schedule are presented within Impairment of financial assets not measured at fair value.
- Positions Gains or losses on derecognition of financial assets and liabilities not measured at FVTPL, gains or losses on financial assets and liabilities held for trading and gains or losses on non-trading financial assets mandatorily measured at fair value from CNB schedule are disclosed aggregately in statutory financial statements on position Net trading income and translation of monetary assets and liabilities.
- Administrative expenses in CNB schedule contain Personnel expenses and Other operating expenses from statutory financial statements.

Appendix 2 - Supplementary financial statements in EUR (unaudited)**Income statement***As at 31 December*

(in EUR million)

	GROUP		BANK	
	2021	2020	2021	2020
Interest income calculated using the effective interest method	360	371	273	286
Other interest income	5	12	4	5
Interest expense	(26)	(36)	(15)	(19)
Net interest income	339	347	262	272
Fee and commission income	248	226	133	120
Fee and commission expense	(51)	(43)	(34)	(28)
Net fee and commission income	197	184	99	93
Dividend income	-	-	16	5
Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	35	31	32	27
Fair value adjustment in hedge accounting	-	(1)	-	-
Other operating income	12	10	5	7
Total operating income	583	570	414	404
Net impairment loss on loans and advances to customers	(7)	(76)	1	(55)
Other impairment losses and provisions	(41)	(5)	(40)	(5)
Personnel expenses	(139)	(138)	(91)	(91)
Depreciation and amortization	(34)	(32)	(25)	(23)
Other operating expenses	(134)	(150)	(79)	(92)
Share of profits from associates	1	1	-	-
Profit before income tax	229	171	180	137
Income tax expense	(42)	(35)	(31)	(29)
Profit for the year	187	136	149	108
Attributable to:				
Equity holders of the Bank	178	130	149	108
Non-controlling interests	9	6	-	-
	187	136	149	108

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2021 (1 EUR = 7.524183 HRK) and in 2020 (1 EUR = 7.53308 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) (continued)

Statement of financial position

As at 31 December

(in EUR million)

Assets	GROUP		BANK	
	2021	2020	2021	2020
Cash and current accounts with banks	4.774	3.583	3.645	2.843
Balances with the Croatian National Bank	603	535	603	535
Financial assets held for trading	151	168	151	168
Derivative financial assets	6	-	5	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	10	-	-
Loans and advances to banks	829	850	620	707
Loans and advances to customers	10.467	9.963	7.162	6.789
Investment securities	1.563	1.549	1.264	1.226
Investments in subsidiaries and associates	9	9	261	260
Other assets	27	35	16	17
Current tax assets	4	7	-	1
Property and equipment	238	237	143	137
Investment property	10	11	3	4
Non-current assets held for sale	3	9	1	2
Deferred tax assets	18	18	11	10
Intangible assets	49	42	34	27
Total assets	18,755	17,026	13,919	12,726

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2021 (1 EUR = 7.517174 HRK) and as at 31 December 2020 (1 EUR = 7.536898 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) (continued)

Statement of financial position (continued)

As at 31 December

(in EUR million)

Liabilities	GROUP		BANK	
	2021	2020	2021	2020
Current accounts and deposits from banks	172	248	254	295
Current accounts and deposits from customers	14,592	13,364	10,762	9,830
Derivative financial liabilities	13	32	-	3
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1	-	-	-
Interest-bearing borrowings and other financial liabilities	925	756	477	485
Senior non-preferred debt	110	-	110	-
Other liabilities	228	216	95	102
Current tax liability	2	-	1	-
Accrued expenses and deferred income	42	36	20	15
Provisions for liabilities and charges	98	74	88	64
Deferred tax liabilities	11	13	4	5
Total liabilities	16,194	14,739	11,811	10,799
Equity				
Share capital	250	250	250	250
Share premium	206	206	206	206
Treasury shares	(37)	(9)	(36)	(9)
Other reserves	234	200	80	58
Fair value reserve	-	6	(1)	3
Retained earnings	1,909	1,640	1,609	1,419
Merger reserve	(161)	(163)	-	-
Total equity attributable to equity holders of the Bank	2,401	2,130	2,108	1,927
Non-controlling interests	160	157	-	-
Total equity	2,561	2,287	2,108	1,927
Total liabilities and equity	18,755	17,026	13,919	12,726

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2021 (1 EUR = 7.517174 HRK) and as at 31 December 2020 (1 EUR = 7.536898 HRK).

Appendix 3 – Other legal and regulatory requirements

The Bank in accordance with Article 164 of the Credit Institutions Act, publishes the following information:

The Bank and the Group are providing the following banking services and core and ancillary financial services:

- acceptance of deposits or other repayable funds from the public and the approval of loans out of such funds, for its own account;
- acceptance of deposits or other repayable funds;
- lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of noncurrent, non-matured receivables collateralised with a financial instrument (forfeiting);
- repurchase of receivables with or without recourse (factoring);
- financial and operating leasing;
- issuance of guarantees or other commitments;
- trading for own account or for the account of clients in: money market instruments; transferable securities; foreign exchange, including currency exchange transactions; financial futures and options; exchange and interest-rate instruments;
- payment services, in accordance with special laws;
- credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- issuing and administering other means of payment, if the provision of such services is not considered the provision of money transmission services in the country and abroad;
- safe custody services;
- money broking;
- activities related to the sale of insurance policies in accordance with the law governing insurance;
- advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and the purchase of shareholdings;
- investment and ancillary services and activities prescribed by a special act governing the capital market that are not included in the previously listed core financial services;
- issuance of electronic money;
- property transaction services, real estate valuation, financial and technical supervision over the construction of real estate;
- compulsory pension fund management.

The Group operates on markets in Croatia, Slovenia and Bosnia and Herzegovina.

	Croatia	Bosnia and Herzegovina	Slovenia
Total revenue	3,482	358	538
Profit before tax	1,413	143	159
Income tax	269	14	29
The number of workers on the basis of equivalent full working time in 2021	3,641	540	699