Erste&Steiermärkische Bank d.d.

Annual Report for the year ended 31 December 2021

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Introduction

This Annual report, issued to the shareholders of the Erste&Steiermärkische Bank d.d., comprises the report of the President of the Management Board, Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries, Non-financial Reporting, Corporate Governance Principles implementation statement, the audited financial statements together with an Independent auditor's report and supplementary reports for the Croatian National Bank (CNB). The audited financial statements are presented for the Group and the Bank.

Croatian and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2021 stated in English. This report is also published in Croatian language.

Legal status

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in EU.

Abbreviations

In this Annual report, Erste&Steiermärkische Bank d.d. is referred to as the Bank, Erste Bank or EBC and Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates are referred to collectively as the Group or EBC Group.

In this Annual report, ultimate parent of the Group, Erste Group Bank AG is referred as Erste Group.

Report of the President of the Management Board

Croatian banking system remained stable and well-capitalized in 2021. The banking market was highly competitive, characterized with high liquidity, further interest rate decline and margin pressure still in place. On the other hand, NPL's level remained stable while net profit of the banks marked a significant recovery in 2021.

Net profit growth primarily the result of lower risk cost

According to the unconsolidated financial report, which includes the result of Erste Bank Croatia (the Bank) excluding subsidiaries, the Bank's net profit in 2021 amounted to HRK 847.0 million, compared to HRK 390.0 million in 2020. The growth of net profit is primarily the result of significantly lower risk cost, which in 2021 amounted to HRK 144.0 million, compared to HRK 627.0 million a year earlier. The Bank's total assets at the end of December 2021 were HRK 82.8 billion, or 13.0% more than at the end of 2020, when it amounted to HRK 73.2 billion. Total loans to customers as of 31 December 2021 amounted to HRK 45.7 billion, 1.1% more than HRK 45.2 billion at the end of 2020. Total deposits of the Bank's customers as of 31 December 2021 amounted to HRK 64.9 billion, which is 13.3% more than at the end of 2020, when they amounted to HRK 57.3 billion.

EBC Group's net profit before minority interests amounted to HRK 1,069.0 million in 2021, compared to HRK 472.0 million in 2020. EBC Group's total assets at the end of December 2021 amounted to HRK 92.3 billion, which is 11.9% more than at the end of 2020, when it amounted to HRK 82.5 billion. Total loans to customers as of 31 December 2021 amounted to HRK 50.0 billion, which is 0.4% more than HRK 49.8 billion at the end of 2020. Total deposits from EBC Group's customers as of 31 December 2021 amounted to HRK 68.3 billion, which is an increase of 13.6% compared to the end of 2020, when they amounted to HRK 60.1 billion.

We have maintained the stability of our business operations and, at the same time, an adequate support has been provided to our clients in such challenging times marked by the pandemic. With a sufficient level of liquidity, we have continued to support the financial needs of citizens, business entities and local municipalities through our regular lending activities. A strong emphasis was placed on further development of our digital solutions, George platform and Keks Pay app. We have continued with our free-of-charge School of Smart Finance program. Due to the epidemiological conditions, the program was running online during 2021. So far, almost 10.000 participants received a personal finance training through the program. At the end, we have kept our excellent brand awareness position, with highest CX on the market, at the same time being the most transparent bank towards the media and public.

Downward trends of NPLs

In 2021, we have noticed a further risk cost decline, while the total NPL share on the Bank's level was additionally reduced from 6.7% at the end of 2020, to 5.3% et the end of last year. Whit respect to private individuals, the NPL share reached 6.6% at the end of 2021, compared to 8.2% at the end of 2020. In the corporate segment, the NPLs share was 4.3% at the end of last year, compared to 6.4% at the end of 2020. As a responsible business entity, the Bank will continue to monitor and manage its loan portfolio, in accordance with its business policies and applicable credit risk management standards. At the same time, the Bank will respect all regulatory rules and apply a balanced approach that respects the objective market situation and needs of its clients.

Euro bond issue – entering the international capital market

At the end of June 2021, we successfully carried out the first issue of our own bonds in the international capital market, in the total nominal amount of EUR 400 million. By realising the transaction, we made a new breakthrough and added the first international euro bond to our existing securities circulating in the domestic capital market. Thus, we became the first bank in Croatia to successfully realise an own bond issue in the international capital market, too. This not only confirmed our position as the most active bond issuer among financial institutions in Croatia, but also allowed us to set new standards in the Croatian banking market. In addition to the bank's core business. The funds raised by the issue will be used to encourage green and sustainable investments, which will, in turn, keep us on the path to a successful and long-term sustainable business in the domestic market.

Business model quality confirmed once again by credit rating upgrade

The renowned credit rating agency, Fitch Ratings, raised our credit rating from BBB+ to A-, which represents the highest rating of any company on the Croatian market. Our rating is at the highest possible level with respect to the so-called Croatian Country Ceiling and placed in the investment grade, two levels above the rating currently held by the Republic of Croatia. The highest rating currently held by a bank in the Croatian market and a further increase of the advantage over competitors, represents a confirmation of the quality of our business strategy, and disseminates a clear message to our current and future clients that Erste Bank Croatia is their reliable and stable financial partner.

Business sustainability and prosperity of Croatian society as ultimate goals

We are one of the leading banking groups on the Croatian market, and the part of the one of the largest providers of financial services in Eastern Europe, which bases its operations on a sustainable business model. Therefore, we have already started with the process of aligning our policies with a new ESG framework and Taxonomy. Our non-financial reporting has been aligned with a regulatory framework. We have identified six fundamental Sustainable Development Goals to which we want to contribute: Good health and well-being (SDG 3), Quality education (SDG 4), Gender equality (SDG 5), Decent work and economic growth (SDG 8), Reducing inequalities (SDG 10) and Climate action (SDG 13). Our market share in a renewable energy financing amounts to 20% and the current exposure in the green segment is around EUR 120 million, marked with an increasing trend. Our ultimate goal is the prosperity of our clients, employees, and the Croatian society as a whole.

Croatia on its way to Eurozone

During 2021, the recovery of the Croatian economy got the boost driven by a great tourist season and exports, but also a strong domestic demand footprint. By facing important events that will shape its economic and political future: entry into the Schengen Area, and Croatia is taking a good path to; and into the Eurozone, with a target date of 1 January 2023, Croatia's entire economy has been presented with a major and demanding task. Therefore, the adjustment process for the adoption of the new currency was initiated by the banks already during 2021. Along with positive economic trends, stable public finance and the potential that lies in using European funds under the Next Generation instrument, Croatia can be optimistic about the future. At the same time, continuous work on further improvements of the investment and legal certainty remains the fundamental precondition for long-term sustainable economic growth and development.

Christoph Schoefboeck,
President of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, President of the Board
Responsibilities: Human Resources Division, Legal Division, Marketing Division, Corporate Communication Office, Strategy and Project Management Division, Internal Audit Division

BORISLAV CENTNER, Member of the Board
Responsibilities: SME Division, Large Corporates Division, Corporates and Markets Business Development and Support Division, Financial Markets Division

MARTIN HORNIG, Member of the Board
Responsibilities: Processing Division, IT and Organization Division, IT Strategy, Property and Service Management Department

ZDENKO MATAK, Member of the Board
Responsibilities: Retail Division, Retail Business Development Division, Direct Channels Division, Digital Banking Division

KREŠIMIR BARIĆ, Member of the Board
Responsibilities: Accounting and Controlling Division, Asset and Liability Management Division, Economic Research Division, Group Tax Office

HANNES FROTZBACHER, Member of the Board
Responsibilities: Risk Management Division, Credit Risk Management Division, Corporate Security Division, Non-financial Risk Division

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2021

I. Retail segment

Retail loans and deposits

Retail - gross loans to customers

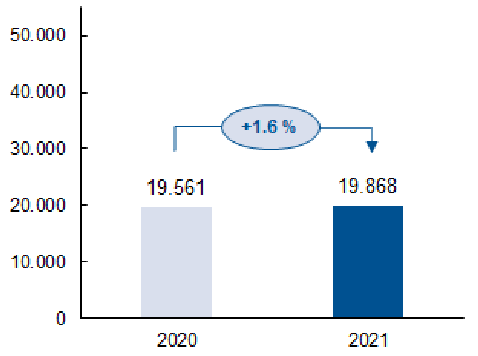


Chart 1: Retail loans in HRK million

Retail - deposits from customers

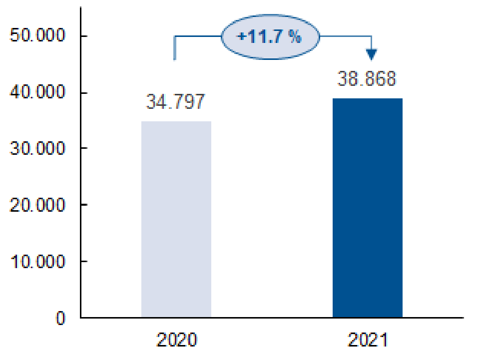


Chart 2: Deposits from customers in HRK million

Total portfolio of the Bank's gross retail loans amounted to HRK 19.87 billion on 31 December 2021, which is increase of HRK 307 million compared to previous year. The market share in retail loans, per Croatian National Bank, amounted to 13.73% as of 30 November 2021 which resulted with decrease of 0.33% compared to 31 December 2020.

The retail deposit market continued its growth in 2021, reaching HRK 38.9 billion as of 31 December 2021, which represents increase of HRK 4.07 billion compared to previous year. Decrease of term deposits continued through 2021 with a trend of decreasing interest rates. Retail deposits reached market share of 15.07% as of 30 November 2021, which represents increase of 0.19% in comparison to previous year.

Focus on clients in 2021

Service quality and client satisfaction, as the main strategic determinants of Erste Bank's business operations, have marked business operations in the past year, which is recognized by clients as we achieved better results in comparison to main competitors in those categories again in the past year. This has also contributed to growth of private individual's client base to over 875,000 clients.

Changes in client behaviour and habits, technology and regulatory framework are continually demanding a change in the existing business model and role of individual distribution and communication channels, where branches are increasingly becoming centres of advisory and solving more complex client requirements, while clients are increasingly using digital services and self-service devices to perform transactions and solve simpler requests. Thus, activities of branch transformation continued throughout the year, which, in addition to a new visual identity, are also characterized by a new way of working focused on the employee advisory role and a unique customer experience. Total number of branches amounted to 117 at the end of 2021, and total number of self-service devices amounted to 724.

Erste Bank also actively took part in the APN program of financing the purchase of real estate or construction of houses, for which the Government of the Republic of Croatia approved subsidies of up to half of the instalment or annuity. In second half of 2021 activities for housing loan improvement were conducted and a large national campaign for promotion of housing loans was organized.

I. Retail segment (continued)

Inovations in Retail segment

With the long-term goal of ensuring financial prosperity for its clients, and providing new and improved possibilities, George's intensive development and improvement has continued. The list of digitally obtainable products has been expanded so that at the beginning of the year, George Cash Loans were digitally offered to not only existing clients, but clients of other banks as well. The entire contracting process is completely digital, consists of only a few steps, removes the need to visit a branch, and is supported by video identification and digital signing of documents with advanced electronic signatures. EAM investment funds are also digitally tradable, while the offer of Wiener Insurance products has been expanded, which means that clients can now buy supplementary health insurance in addition to the existing travel insurance. In addition to the listed products, George Store users can digitally open a Current Account or Savings Account, contract a Pre-Approved Loan, order a Diners Club Credit Card, or buy a Pre-Paid Mobile Phone Top-Up Voucher. George also offers an exceptional level of personalization, allowing each user to create their own version of George by having the user choose their own view, sort and organize style of information displayed which gives them more insight into their spending, savings, investments, and payments. The development of new functionalities in 2021 has created preconditions for the complete migration of existing digital users to George, and the shutdown of old digital services.

Three years after its market launch, Keks Pay continues to attract new users at a rapid pace. At the end of 2021, of about 230,000 users in total, as many as 75% of them were customers of other banks. After launching KEKSICA - the free prepaid Keks Pay account with a corresponding Visa card and fully-digital onboarding in 2020, its total number of users also increased in 2021 – at the end of the year, there were more than 23,000. In a new, even simpler, and more user-friendly user interface, Keks Pay introduced another innovative feature – Keks Pay utilities. Receipt of monthly bills (utility costs, insurance, telecoms, etc.) and their payment is possible in the application itself, without any fees for users. Those users who decide to receive Keks Pay utilities bills no longer receive paper invoices at their home address. Instead, the invoices are delivered digitally, in the application itself, which also has a positive environmental impact. Digital invoices feature in Keks Pay and paying them without fees is enabled in cooperation with certain utility companies, insurance companies, cities, municipalities and other issuers of invoices throughout Croatia.

Digital banking in 2021

In 2021, Erste Bank recorded an increase in the number of digital channel users, as well as transactions and revenues related to transactions. During 2021, the focus was on the migration of digital service users to George and the increase of digital sales. Erste Bank recorded 413,474 digital users at the end of 2021, out of which 309,358 were active users, which is an increase of 21% compared to 2020.

Retail - digital and active digital users

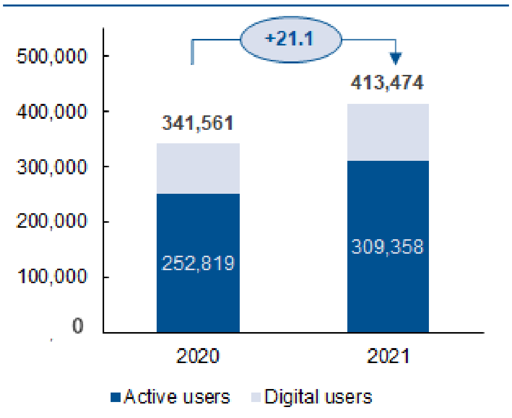


Chart 3: Digital and active digital users - Retail segment

Retail - active digital users structure

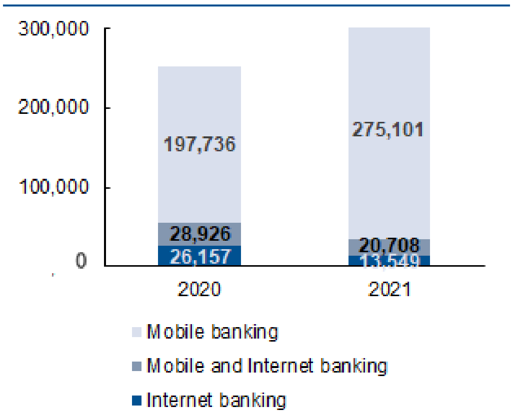


Chart 4: Active digital users structure - Retail segment

I. Retail segment (continued)

Contact centre

In 2021, a total of 765,570 contacts were made, which is a decrease by 12.04% compared to 2020. Contact centre agents have resolved 543,744 contacts which is 8.9% lower than in previous year. Out of these contacts, 79% were resolved by telephone, while the rest were related to written communication by e-mail, chat, Viber, WhatsApp, Facebook and video identification. Significant growth compared to 2020 was realized in written form contacts, especially e-mail which grew by 23.81% and because of it being less efficient than telephone, number of total resolved contacts decreased. Also, in 2021 video identification of clients who are George users was enabled in full scope, and the same was enabled later in the year for Keks Pay users, thus enabling clients to conduct certain business with the Bank digitally instead of coming to visit a branch. Through the Contact Centre IVR (Interactive Voice Response) a total of 221,826 entries have been recorded, which is decrease of 18.81% in comparison to previous year.

Remote advisory pilot project began in the last quarter of 2021. Service is provided centrally, to clients on all locations, through video communication (from branches or through George app) by team of employees specialized for providing advisory services for complex products. Pilot is achieving expected results in sales of investment products and service quality, which is measured by CEX index from clients who have used this service.

II. Corporate segment

Corporate loans and deposits

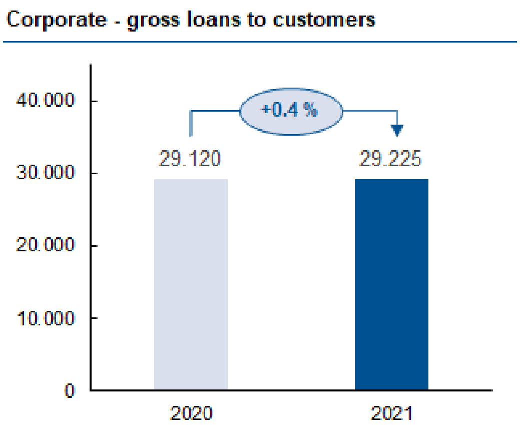


Chart 5: Corporate loans in HRK million

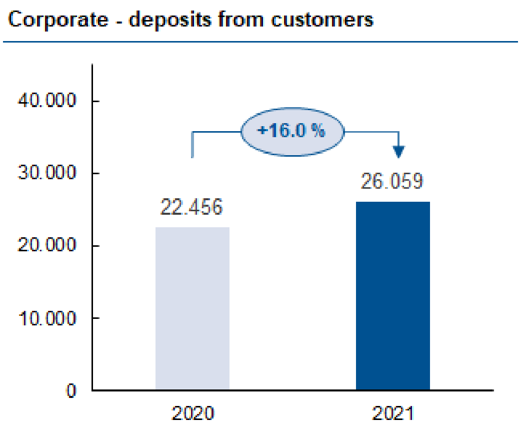


Chart 6: Corporate deposits in HRK million

Total portfolio of the Bank's gross corporate loans recorded growth in 2021 and amounted to HRK 29.23 billion as of 31 December 2021, which is increase of HRK 105 million compared to previous year. The market share in corporate loans, per Croatian National Bank, amounted to 20.95% as of 30 November 2021 which resulted with growth of 0.65% compared to 31 December 2020.

The corporate deposit on 31 December 2021 amounted to HRK 26.06 billion, which represents increase of HRK 3.60 billion compared to previous year. Corporate deposits reached market share in the amount of 18.41% as of 30 November 2021, which represents increase of 1.05% in comparison to previous year.

Focus on corporate clients in 2021

Although to a somewhat lesser extent, the consequences of the COVID-19 pandemic have marked business operations last year as well. This part is particularly seen through business cooperation with international financial institutions where lines that support entrepreneurs in maintaining liquidity and business in general are still in focus. From the very beginning, Erste Bank has made its maximum contribution to alleviate negative impacts on customers and help them maintain the continuity of their operations.

In addition to the above, we continued to work on expanding the offer of products and services to clients, in all segments of business entities. Thus, the offer of products for micro clients has been expanded and from this year they can also use factoring as a new form of short-term financing. For all segments, the sub-model of investment loan has been adjusted, specifically intended to finance the renovation of residential buildings, whether it is the renovation of earthquake-affected areas or raising the energy efficiency of existing buildings. The modification has brought simplicity and speed of contracting and is maximally adapted to market requirements. Throughout the year, intensive activities were carried out on the optimization and automation of business processes in order to establish maximum business efficiency and provide faster and better service to customers.

II. Corporate segment (continued)

Initiatives and projects

Despite continuing to operate in a pandemic, further development and improvement of products and services for business entities remains the focus of Erste Bank, guided primarily by customer expectations and strategic goals, in order to provide comprehensive financial services and maintain the position of innovative bank and bank of first choice for clients. The year is also marked by business preparations for the imminent entry into the euro area. Much of the business activity is focused on the analysis of the entire business in order to create the best possible foundations for a simpler transition of the business to the new currency. As in the previous year, intensive cooperation with special financial institutions on guarantee instruments continued this year with the aim of mitigating the negative consequences of the COVID-19 pandemic, especially with the European Investment Fund (EIF), the Croatian Bank for Reconstruction and Development (HBOR) and HAMAG-BICRO.

At the beginning of the year, the implementation of HBOR's COVID-19 portfolio policy for financing new liquidity for exporters began, and an agreement on guarantees for rural development was signed with HAMAG-BICRO, and in June 2021 an agreement on COVID-19 guarantees for the tourism and sports sector.

In March 2021, an agreement was concluded between Erste Bank, Erste & Steiermärkische S-Leasing and the EIF on a new guarantee instrument under the Pan-European Guarantee Fund (EGF). This agreement provides guarantee funds for loans to small and medium-sized enterprises. In this way, clients facing business difficulties were provided with easier access to financing on more favourable terms. Clients have shown great interest in this instrument and the entire available allocation is reserved during the year.

By signing contracts and using the above-mentioned guarantee instruments, Erste Bank sought to provide support to single business sectors, especially those most affected by the pandemic. As a result, in 2021, with the guarantee instruments, three times more loans were approved and twice as many loan volumes than in the previous year. Thus, the Bank is the first on the Croatian market in terms of the use of EIF guarantee instruments.

In addition, cooperation with HBOR and the European Investment Bank continued, in the use of contracted lines intended for financing SME and MidCap clients especially. Erste Bank also systematically continues to finance projects co-financed by EU grants and develop in-house expertise.

After a special web page was published on the Erste Bank website in 2020, which for the first time brings together all the necessary information for clients when it comes to supporting cross-border business (through the International Desk, i.e., through the Transaction Banking Competence Centre), in 2021 it was published in English version. This further expanded access to information for all those interested in future business cooperation, and related to the regional or CEE market, as well as easier access to Erste Bank's contacts to all clients from those markets interested in future business cooperation.

II. Corporate segment (continued)

Digital banking in 2021

The number of business entities which use Erste NetBanking service in 2021 increased by 6% compared to the previous year. The number of business entities which use Erste mBanking service increased by 29%.

Almost 32 million transactions were completed trough digital services in 2021. which is increase of 11%. Total volume of transactions done through digital services was 301.6 billion HRK which is increase of 15% compared to the previous year.

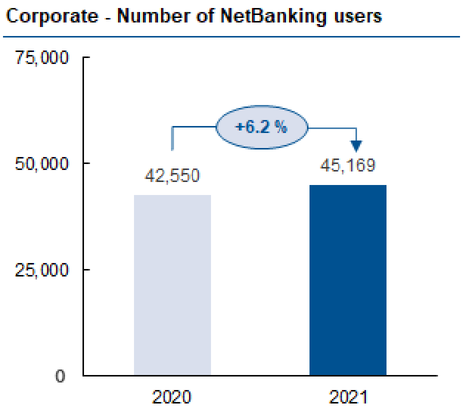


Chart 7: Number of NetBanking users - Corporate segment

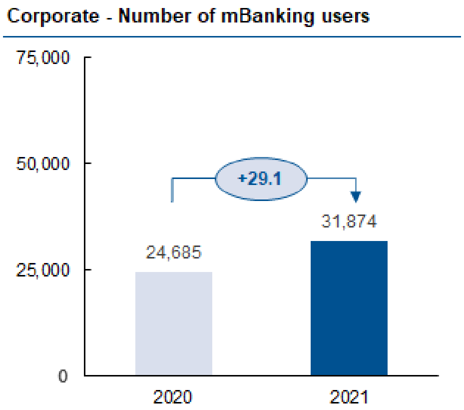


Chart 8: Number of mBanking users - Corporate segment

III. Macroeconomic indicators

After 2020 brought the strongest decline in economic activity in recent history, outlook going into 2021, anticipated relatively strong recovery, but also caution due to ongoing high level of uncertainty in the pandemic environment. From the current perspective, recovery dynamics constantly brought positive surprises during 2021, where we currently expect average GDP in excess of 10% mark in 2021, suggesting full recovery of lost economic activity in 2020. After stabilization during the first quarter (GDP contraction slowed down to 0.6%), the next two quarters brought double-digit GDP expansion (16.5% and 15.8%), while currently available data suggest strong growth in the last quarter of 2021 as well. While economic rebound mainly reflects good tourist season (with the number of overnight stays reaching almost 80% of pre-COVID-19 level), private consumption also played important role in shaping the recovery profile, showing higher spending pattern during 2021 vs. pre-pandemic one. Such favourable trend was also earlier noticeable in merchandise exports, where recovery of main trading partners supported high double-digit growth rates in exports during 2021. We should also mention the rapid recovery of investment activity, which exceeded pre-crisis levels, additionally supported by the available EU programs. These favourable trends should also continue during 2022, where we expect economic growth around 4.5% mark. Outlook implies further normalization of tourism activity, additional pick-up of investment dynamics under the impact of Next Generation EU (NGEU) program and ongoing favourable trends on both private consumption and merchandise exports side. Both upside and downside risks to the forecast remain present, especially under the influence of pronounced uncertainty regarding pandemic developments.

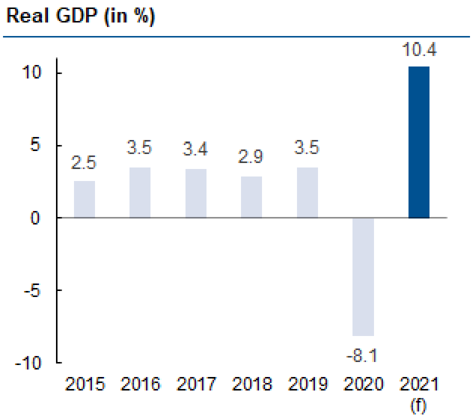


Chart 9: Real GDP (in %) 2015 - 2021

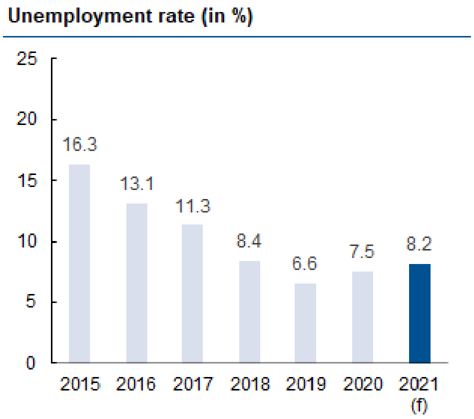


Chart 10: Unemployment rate in Croatia 2015 - 2021 per ILO definition

After maintaining positive developments in recent years, current account moved towards negative area in 2020, with CA deficit landing at -0.1% of GDP in 2020 because of worsened services performance. While CA balance remained in negative area during 1H21 (on 4Q trailing basis), going into 2H21 situation reversed as balance moved back into the positive region, amounting to 3.7% of GDP in 3Q21 (on 4Q trailing basis). Such developments were largely supported by robust performance on the services side, as tourism revenues had reached record-high 2019 levels. On the other hand, worsening performance on the merchandise side limited the overall surplus increase. Bottom line, we see CA balance landing around 3% of GDP mark in 2021, followed by similar performance in 2022. Foreign debt is seen following downward trajectory, as appetite for additional debt generation is likely to remain limited.

After largely subdued developments during 1Q21, inflation pressures intensified going further into year as energy-driven base effect from 2020 started to reverse. CPI acceleration continued throughout 2Q and 3Q, with headline figure reaching its highest mark since Oct-08 at 5.5% y/y in December. Higher inflation print continues to reflect mostly supply-side constraints, namely energy and food prices, while demand side pressures staying still relatively balanced. Following average 2.6% CPI footprint in 2021, we see average inflation in 2022 around 3.5%, with risks pronounced to the upside as anticipated hike of regulated energy prices and supply-chain bottlenecks add to such pressures.

III. Macroeconomic indicators (continued)

Following 7.4% of GDP gap in 2020, we see fiscal deficit narrowing towards the 4.5% of GDP region, with more robust economic recovery favouring the fiscal outlook. Public debt trajectory is expected to reverse and gradually decline from current levels. On the rating side, the last round of rating reviews in 2021 brought good news, as Fitch upgraded Croatia's grade to 'BBB', with outlook also being revised one notch to the positive. The rationale brought no surprises, as euro adoption prospects took the spotlight, on top of significant upgrade to the GDP outlook. Heading into 2022, we reiterate the expectations of similar move by the S&P, thus also increasing the likelihood of some positive news from the Moody's side (currently holding the rating in non-IG region at 'Ba1' with stable outlook, thus being 2 notches below Fitch and one below S&P).

	2015	2016	2017	2018	2019	2020	2021 (f)
Nominal GDP (HRK, bn)	344.0	355.9	372.4	390.9	412.2	378.3	432.4
Nominal GDP (EUR, bn)	45.2	47.2	49.9	52.7	55.5	50.2	57.5
Real GDP (growth y/y, %)	2.5	3.5	3.4	2.9	3.5	-8.1	10.4
CPI (y/y, average %)	-0.5	-1.1	1.1	1.5	0.8	0.1	2.6
Current account balance (EUR, bn)	1.5	1.1	1.8	1.0	1.7	-0.1	1.7
Current account balance (% of GDP)	3.4	2.3	3.5	1.9	3.0	-0.1	2.9
Foreign debt (EUR, bn)	48.3	44.7	43.5	42.6	40.3	40.7	43.3
Foreign debt to GDP (%)	106.9	94.6	87.3	80.8	72.6	81.2	75.2
Loc. Curr./EUR average	7.6	7.5	7.5	7.4	7.4	7.5	7.5
Unemployment (%, ILO definition)	16.3	13.1	11.3	8.4	6.6	7.5	8.2

[1] forecast
Source: CBS, CNB, Erste&Steiermärkische Bank d.d.

IV. Financial markets

Money market

Year 2021 was marked by the continuation of the COVID-19 pandemic with still present uncertainty and volatility in global financial markets. The domestic financial market stabilized in 2021 after the turbulent 2020. The excess liquidity in the banking sector at the end of the year amounted to HRK 71.7 billion, which is an increase by HRK 17 billion compared to the end of 2020. In the domestic banking market, the Croatian National bank (CNB) intervened twice, in April by selling EUR 190 million and in June by buying EUR 120 million, keeping the exchange rate stable at levels close to the central parity set at EUR 1 = HRK 7.53450 with Croatia's entry into ERM II. There was no interest this year for regular weekly repo operations at an interest rate of 0.05%.

Deposits with a maturity of one week and 3 months were traded on the interbank market, where the average rate on kuna was 0.05% and 0.25%.

Yields on Treasury bills of the Ministry of Finance have fallen to historic levels. Yield on 182-day and 364-day kuna bill is 0%. Yield on the 364-day euro FX treasury bill fell by 11 basis points and was issued at -0.05%. Yield on the 364-day foreign currency treasury bill fell by 10 basis points and was issued at -0.15% the end of the year. Aggregated total debt through auctions of treasury bills decreased by approx. HRK 500 million.

At the end of 2020, the Government of the Republic of Croatia adopted the National plan for the changeover from the Croatian kuna to the euro and the CNB began preparations with banks on the domestic market for the introduction of the euro. It is worth noting that the world's central banks continued their policy of quantitative easing in 2020, but under the pressure of extremely high inflation in the second half of the year announced the end of such a policy and possible gradual rise in interest rates in the coming years.

FX market

Uncertainty about the development of the COVID-19 pandemic followed us through 2021. The exchange rate of the kuna against the euro during the first three months of 2021 depreciated very slightly from 7.55 to 7.58. In order to prevent further weakening of the domestic currency, the Croatian National Bank intervened in the foreign exchange market in early April. On that occasion, EUR 190 million were sold to commercial banks at an average exchange rate of 7.5705. After the intervention, the exchange rate began to appreciate. The strengthening of the kuna intensified during May and June under the influence of increased supply of foreign exchange from the Ministry of Finance and banks, which began to shorten their foreign exchange positions in anticipation of a better tourist season and improved epidemiological situation. The exchange rate falls from 7.57 to 7.48 in the second quarter, prompting the Croatian National Bank to intervene in the foreign exchange market in mid-June. The CNB bought EUR 120 million from commercial banks at an average exchange rate of 7.4974. During July and August, the EUR/HRK exchange rate stabilized around 7.50. In mid-September, the exchange rate began to depreciate due to growing epidemiological uncertainty and strong demand from the financial and corporate sectors. The end of the year brought exchange rate stabilization around the 7.52 level. Exchange rate of the kuna against the US dollar was in the range of 6.18-6.68, while against CHF it was in the range of 6.82-7.22.

IV. Financial markets (continued)

Capital market

In 2021, a slightly increased dynamics of corporate bond issues was notable. However, despite some new Issuers, Republic of Croatia remained the most active one in terms of volumes.

On 30 June 2021, Republic of Croatia entered the domestic market with the aim of refinancing the HRK 6 billion maturing domestic bond. Related to that a 7-year bond in the amount of HRK 9 billion was issued. Favourable financing conditions and high demand that exceeded HRK 19 billion affirmed once again the high excess liquidity in the system and investors' appetite for government bonds. The Bank participated as one of the Joint Lead Managers in the above-mentioned Government bond issue.

In the segment of corporate issues, the Bank participated as a Joint Lead Manager in the new 5-year corporate bond of M SAN Group in July in the total nominal amount of HRK 200 million. The Bank also participated in December as a Joint Lead Manager in the HRK 2 billion, 5-year corporate bond of Industrija nafte d.d. (INA), the largest corporate bond issue ever on the domestic market.

Erste Croatia was also an active Issuer on the primary domestic as well as international capital market. In February, the Bank successfully issued a 5-year senior preferred bond (in the total nominal amount of EUR 45 million), which represents the first bond issuance on the domestic market under the Minimum requirements for own funds and eligible liabilities (MREL) regulation. In July, Erste Croatia successfully concluded its first bond issue on the international market in the senior preferred format, with the total nominal amount of EUR 400 million maturing in 2028, callable after six years. With this transaction, Erste Croatia made an additional step forward and added its first international Eurobond to the existing issues on the domestic capital market. This made Erste Croatia the first bank in the country to successfully issue bonds on the international capital market.

The Bank is continuously ranked among the leading arrangers of debt securities in the Republic of Croatia, in 2021 with 24.73% of market share (according to Bloomberg), thereby confirming its strategic orientation to support the development of capital markets improving primary market environment.

In the respect of bond issuance on the international market, within the Erste Group, the Capital Markets Department successfully participated in the 12-year Eurobonds of Republic of Serbia in the total nominal amount of EUR 1 billion in February as well as in the 7-year Eurobonds of North Macedonia in the total nominal amount of EUR 700 million in March, in both transactions as Joint Lead Manager.

Debt securities market

The last year will be remembered for the significant reduction in turnover and volatility, both in the domestic bond and in the international bond market. This development is primarily due to relatively low yields, which has made Croatian government bonds less attractive to many investors. The reason for the lower yields in 2021 was primarily the best credit rating of the Republic of Croatia in history, but also the development of events in the major markets.

Trading on the local market took place in rather inactive circumstances, so the yield on the bond maturing in 2029 ranged from 0.35% to 0.65%. Due to the extremely high amount of HRK liquidity and the lack of sellers of HRK bonds, many investors had significant difficulties in investing their surplus funds. In the past year, the Republic of Croatia placed only one bond in domestic currency. The bond raised a total of HRK 9 billion in investments, with a yield to maturity of 0.533%. With this issue, however, investors were able to partially meet their needs for securities denominated in local currency.

Activity in the international market was still slightly better than in the local market, but turnover was still significantly lower than in previous years. The Republic of Croatia had two new international issues last year, which improved the activities a bit, as is the custom with new securities. The 2033 maturity bond ranged from 0.85% to 1.50% over the past year, while the 2041 maturity bond traded in the range of 1.375% to 1.80%.

IV. Financial markets (continued)

Equity markets

The year 2021 on the Croatian capital market will be recorded as a year of stabilization and positive sentiment. This sentiment was present continuously throughout the year and with only occasional oscillations that were not of long duration. The Crobex stock index grew by almost 20% and ended the year at 2.079 points. At that level, Crobex was last in the summer of 2017.

At the same time, the share turnover on ZSE in 2020 amounted to only HRK 2.27 billion, which is still a significant decrease of almost 20% compared to 2020 (HRK 2.85 billion). This is a surprise given the growth of company prices during the year, but we must keep in mind the large market decline in the first half of 2020 caused by the COVID-19 pandemic when the oscillations were extremely strong and where a large volume was generated in a relatively short time. Despite this decline in total volumes on the ZSE, the ECB successfully maintained its 2nd position with a slight decline in market share from 15.4% to 14.1%. The reason for this is primarily a larger share in retail clients' trading with shares of companies (Atlantska plovidba, Optima Telekom, SPAN…) that are out of focus of clients who primarily use ECB services, primarily institutional clients (pension and investment funds and insurance). Overall, there were no major changes in the volumes achieved, so companies such as Hrvatski Telekom, Valamar Riviera, Podravka, Adris Grupa and Atlantska plovidba still dominate among the most traded companies.

Also, the liveliness of the stock market was ensured by some new stock issues, most of which were SPAN as the first IT company to go public 20 years ago. During the year, there were several recapitalisations as well as six bond listings (state, corporate and municipal).

If we look at the indices in the region, they did better. Slovenia's SBITOP ended the year with a plus of almost + 40%, Romania's BET + 33%, Austria's ATX + 39%, while Germany's DAX ended 2021 with + 16%.

Custody groups

2021 was a very challenging year in the business segment of the Custody Service and marked by increased sales activities that, thanks to maximum efforts aimed at exploiting the current market situation, resulted in a growth in the number of clients.

As a result, the total value of assets recorded in custody accounts risen approximately by 300% compared to the previous year and reached the level of HRK 36.16 billion which led to significant increase in the market share of Bank in custody and depositary business in the Republic of Croatia.

The number of newly opened custody accounts increased by 26% compared to the previous year. After 2020, which was marked by an extremely large growth in the number of transactions in custody accounts caused by the effect of the COVID-19 pandemic, the number of securities transactions reached an approximate same level in 2021, ending the year with a total of 11,378 transactions settled on domestic and foreign markets.

In the year 2021, the Custody Service continued to improve the software it uses for the entire business in a way that will ensure even greater efficiency in everyday work, reduce the number of manual processes, and thus allow employees as much time as possible to strengthen business cooperation with clients and improve the quality of service.

V. Risk management

Risk management is a set of procedures and methods established for identifying, measuring, assessing, controlling and monitoring of risk, including reporting of risks to which the credit institution is or might be exposed to in its operations. The Bank is obliged to regularly measure and assess the risks identified in its business. Methods of measuring and assessing the risks must include appropriate quantitative and/or qualitative measurement methods and risk assessment that will enable the observation of changes in Bank's risk profile, including the emergence of new risks.

The most significant risks that affect Bank's business operations are credit, market, operational and liquidity risk.

Credit risk is the risk of potential loss due to a debtor's non-payment of obligations towards the Bank, and it arises from possibility that the Bank identifies, measures, follows up on, controls, i.e., actively manages the credit risk as one of the most important risks and determines the existence of appropriate capital level for covering of such risks. Risks related to credit risk are: currency induced credit risk, residual risk, sovereign risk, dilution risk and concentration risk.

Market risks represent the risk of loss in open position stemming from change in the movements of the market prices, including changes in the interest rates, exchange currencies and prices of securities. In this sense, market risk include: (i) interest rate risk, (ii) currency risk and (iii) equity investment risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

Legal risk means the risk from claim or proceeding due to non-compliance with the legal and legislative provisions of national or international origin or from contractual arrangements or internal rules and/or ethical conduct deriving from national or international norms and practices or statutory responsibilities. It also includes the exposure to newly enacted laws as well as to changes in interpretations of existing laws. Legal proceedings should be considered to be any legal settlements, either judicial, or out of court, such as arbitration, or claims' negotiations. Operational risk definition excludes strategic and reputational risk.

The Bank assesses the reputational risk for assessment purposes due to the strong links with the operational risk (e.g., most of operational risk events have strong impact in terms of reputation).

Liquidity risk is a risk of loss stemming from an existing or expected inability of credit institution to settle its monetary obligations upon maturity. Liquidity risk arises from maturity mismatch between assets and liabilities.

Except above mentioned risks the Bank also manages all other risks that could affect their business operations such as: systemic risk, regulatory risk, business environment risk etc.

VI. Erste Bank AD Podgorica

Erste Bank AD Podgorica (EBM) on 31 December 2021 achieved net profit of EUR 6.9 million with a return on equity (ROE) of 7.1% and return on assets (ROA) 1%. The achieved result can be considered significant having in mind that it was achieved in the year of extraordinary circumstances still affected by COVID-19 pandemic. Our focus was on preserving the customer base and improving the quality of service. EBM operates through a network of 17 branches throughout Montenegro and serves more than 118 thousand customers as of 31 December 2021.

Net interest income amounted to EUR 23.3 million and is 4.3% lower compared to the previous reporting period, mostly due to active interest rates decline during 2021. Net interest margin decreased from 4.78% at the end of 2020, to 4.55% at the end of 2021 which is in line with the market trends. Net fee and commission income amounted to EUR 5.1 million and is increased by 28.7% compared to previous year, mainly due to healing of economic activity and tourist season after COVID-19 pandemic, supported with higher number and volume of transactions in payment services and card business.

General and administrative expenses amounted to EUR 17 million and compared to the previous year increased by 1.7%.

Risk costs amounted to EUR 4 million and the biggest impact was additional credit loss allowances (CLA) allocation to current and new corporate default clients. Credit risk cost ratio amounted to 0.88% which is significantly lower compared to the previous year when it was 1.41% due to COVID-19 pandemic. Nonperforming loan (NPL) on 31 December 2021 is EUR 32.2 million which is an increase of EUR 8.1 million compared to 2020 with payment uncertainty as a main reason for increase. Nonperforming loan coverage was 94% on 31 December 2021, which represent decrease compared to 31 December 2020 when it was 104%.

Total assets amounted to EUR 672 million as of 31 December 2021, which compared to previous year increased by 5.2%. Net loans to customers amounted to EUR 426 million and ended up on similar levels as of 31 December 2020 of which EUR 235.3 million related to retail lending and EUR 190.7 million related to loans granted to corporate segment.

The previous year was quite challenging in the retail sector, where COVID-19 pandemic circumstances had a dominant impact on business. Gross loan portfolio recorded modest growth of EUR 6.4 million (1.4%) compared to previous year, predominately on cash loans but also housing loans. There was a slightly lower market share in loans (17.06%) compared to the previous year (17.30%). The main reason, in addition to the circumstances caused by the COVID-19 pandemic, are certainly the measures of the Centra Bank of Montenegro related to shortening the maturity of unsecured cash loans, which limited the possibility of placement in this segment.

In 2021, corporate division had also recorded modest growth of the loan portfolio in amount of EUR 1.3 million (0.63%) while our market share decreased from 13.39% to 13.10% due to significantly reduced demand for investment arrangements in core corporate segment, large early loan repayments, lower risk appetite in relation to the market and focus on restructuring activities of existing portfolio in industries affected by crisis.

Total customer deposits increased by EUR 42.6 million and amounted EUR 458.6 million at the end of the year mainly on sight deposits, while at the same time term deposits recorded decrease. Retail deposits accounted for EUR 202.9 million, and corporate deposits for EUR 255.7 million.

During the year, EMB established cooperation with leading institutions and companies on the market and will continue to analyse the market needs and develop customer-oriented products and services. Potentials to provide its customers with the best support is realized with participation in numerous projects with aim to automatize credit process, provide more detailed insights and create a good basis for increasing efficiency and improve monitoring portfolio quality. The focus is placed on enchasing customer base and increasing satisfaction of customers in parallel with the care for the welfare of employees, community and the shareholders.

VII. Erste Card Club d.o.o.

Erste Card Club Group (Erste Card Club Group consists of: Erste Card Club d.o.o., (hereinafter ECC) and Erste Card d.o.o., (hereinafter EC SLO) collectively hereinafter ECC Group) as of 31 December 2021 achieved net profit of HRK 131.2 million. Recorded increase of HRK 123.4 million compared to 2020 is result of better macroeconomic situation followed by lower and stable risk provisions, consumption recovery and strong touristic season. ROE was 10.69%, which represents an increase of 10.2 percentage points, while ROA was 4.74%, which represents an increase of 4.48 percentage points compared to 2020.

Consolidated net interest income totals HRK 139.2 million with a decrease of 3.2% compared to 2020, mainly due to regulatory changes related to interest rates and decrease of income from cash advance. Positive impacts are coming from optimisation on interest expenses regarding loans repayment of EUR 30 million in June 2021 and EUR 25 million in November 2021. Consolidated net fee and commission income totals HRK 247.7 million representing an increase of 8.7% compared to 2020 followed by the increase in a credit cards turnover, influenced by the increase in consumption and the good tourist season together with the recovery of the market after the negative influence of COVID-19 trends in the previous year. Merchant service commissions are stable and at a satisfactory level. Net trading result amounted to HRK 0.4 million in 2021, while HRK 5.7 million in 2020. During the year 2021 the planned sale of EAM Fund shares in the amount of EUR 14.9 million was realized in two phases, 50% in May and 50% in June 2021.

Consolidated general administrative expenses amounted to HRK 253.6 million in 2021 with a decrease of 1.8% in comparison to 2020. The decrease of personnel expenses by 8.2% is result of transfer part of employees to Erste bank. Other administrative expenses are higher by 2.3% when compared to 2020 as a result of higher legal costs, which include SLA contracts costs and costs related to collection of receivables. Depreciation costs are lower by 1.3% or HRK 0.4 million.

Other operating result in 2021 amounts to HRK 12.5 million and mostly refers to revenue from settlement in the litigation.

Consolidated risk cost in 2021 recorded positive development and ended up with release of HRK 14.1 million which is HRK 107.4 million lower compared to year 2020, as a consequence of lower NPL inflow and more efficient collection. NPL ratio decreased to 9.1% in 2021, while 11.1% in 2020.

Total ECC consolidated assets amounted to HRK 2,541 million as of 31 December 2021. Loans and advances to customers and credit institutions recorded decrease of 4.1% compared to 2020 as a result of lower volumes of non-bearing interest instalments and revolving portfolio in favour of debit cards on the market.

Total liabilities at the same time declined compared to 2020 due to reduction of liquidity surplus respectively loan repayment to Erste Bank AG Vienna. Total equity amounts to HRK 1,302 million with an increase of 10.8% compared to the 2020 due to achieving higher net profit. In 2021 there was no dividend pay-out.

General information

Based on the decision of the Supervisory Board of Erste&Steiermärkische Bank d.d. (Erste Bank) of 18 December 2020, the preparatory activities of the Biggins integration project began in 2021, aiming to fully merge ECC with Erste Bank. Due to the subsequent decision of the Government to introduce the Euro from 1 January 2023 and due to the comprehensive adjustment of Erste Bank's business to this decision, Biggins project activities are slowed down due to reprioritization of goals and focus on Euro introduction project, with plan to intensify Biggins project activities after 1st January 2023. A new integration date will be decided by the end of the first quarter of 2022.

In order to provide additional security to online payments, the 3D Secure 2.0 standard (Standard) used for authentication of the online transactions has been implemented, in compliance with the legislation on payment transactions, i.e., the PSD2 directive of the EU. Consequently, the obligatory mToken confirmation within the ECC Mobile application (EMA) was introduced for all transactions made with Diners Club, Visa or Mastercard credit cards at online points of sale that support the Standard, while at other points of sale, authentication with a one-time password or card info entry is still possible.

VII. Erste Card Club d.o.o. (continued)

General information (continued)

After the pilot project, the free NaOku.hr application was introduced. The app is intended for all business partners with whom ECC has an agreement on accepting payment cards, allowing them, among other things, to access a detailed overview of payment transactions and points of sale. Total number of merchants who use NaOku application exceeded 3,000 on 31 December 2021.

For users of Diners Club, Visa and Mastercard credit cards, ECC has enabled digital contracting of the ASIST+ service, through the ECC Mobile application. Currently, the following services agreed in cooperation with ORYX Assistance can be contractedat a more favourable price compared to the market for ECC clients.

In October 2021, a selling contract was signed with Bank Sparkasse d.d. from Ljubljana, on the basis of which ECC will sell business shares of a subsidiary Erste Card d.o.o., which in Slovenia has the exclusive right to issue Diners Club cards and contract acceptance at points of sale. Implementation of the transaction is expected in the first half of 2022.

Pursuant to the sublicense agreement, signed on 1 November 2021, Sparkasse bank d.d. BIH from Sarajevo took over the exclusive sublicense for issuing and accepting Diners Club and Discover cards in Bosnia and Herzegovina. Decision on the transfer of the card business of the dependent company Diners Club BH d.o.o into Sparkasse bank d.d. BIH was brought about by local regulatory restrictions, due to which Diners Club BH d.o.o. could not continue providing issuance and contracting services, and it still exists as a legal entity with the activity of collecting receivables from the non-transferred part of the portfolio.

Credit cards

ECC total number of credit cards as of 31 December 2021 amounted to 384,590 with net decrease of 4.1% compared to previous year. The year 2021 was still marked by continued COVID-19 pandemic restrictions that had an impact on new sales level as well as consumption per credit cards. Despite these challenges, stable total sales were achieved in the amount of 32,830 credit cards, which is 0.7% higher compared to 2020. Credit cards attrition, 1.6% lower than previous year, is affected by regular activities arising from the Anti-Money Laundering and Terrorism Financing Law (Anti-money laundering; AML).

Company’s credit card market share as of 30 September 2021 amounted to 23.12% compared to 23.28% as of 31 December 2020. Activities related to increasing the number of credit cards are focused at selling through all sales channels with special emphasis on digital channels alongside digital marketing campaigns. The total number of ECC clients as of 31 December 2021 amounted to 302,772 which represents a decrease of 3.3% compared to year 2020. The total number of ECC Mobile App (EMA) users amounted to 163,528 which is an increase of 53,101 user or 48.1% compared to year 2020. Increase is followed by activities related to digital onboarding of existing and new clients.

Total ECC issuing volume in 2021 increased by 0.9% compared to previous year and amounts to HRK 7,023 million, with market share of 25.19% (decrease of 89 bps compared to 3Q2020). In the volume structure, the highest growth was recorded in charge transactions, while the instalments volume and cash advance were lower compared to 2020, influenced by market trends in debit cards volume with significant share of cash payment transactions.

Total ECC acquiring volume increased by 27.7% compared to previous year with market share of 15.42% (at the same level as 3Q2020). Higher volumes were mostly influenced by strong growth of Visa and Mastercard volumes and recovery in consumption and touristic season after the COVID-19 pandemic. Total number of ECC transactions in 2021 exceeded 67 million with an increase of 22.9% compared to 2020.

Total number of ECC's EFT POS devices amounts to 19,367 as of 31 December 2021. Market share of EFT POS network increased to 21.38% as of 30 September 2021 (289 bps increase compared to year end 2020).

VIII. Erste&Steiermärkische S-Leasing d.o.o.

Erste&Steiermärkische S-Leasing d.o.o. (Erste Leasing) on 31 December 2021 achieved net profit of HRK 38 million with an increase of 66.1% compared to 2020 mainly due to better macroeconomic situation and lower risk provisions. ROE was 9.2%, which represents an increase of 3.2 percentage points, and ROA was 1.3%, which represents an increase of 0.5 percentage points compared to 2020. The achieved result can be considered significant having in mind that business operations were still marked by COVID-19 pandemic.

Net interest income amounted to HRK 76.8 million, achieving a growth of 2.2% compared to 2020. Interest income represents the most significant share to the Company's result and refers mainly to interest income from finance lease, whereas interest expenses are optimised by lower costs of funding sources.

Income from operating lease amounted HRK 65.1 million and is lower by 21.6% compared to 2020 due to the decrease of operating lease in the portfolio.

The net trading result refers to net exchange differences which amounted HRK -2.2 million in 2021.

General and administrative expenses amounted to HRK 92.9 million and were lower by 7.1% compared to 2020 due to decrease of depreciation expenses as a consequence of decrease of operating lease portfolio.

In 2021 risk cost was mainly applied to the existing portfolio and amounted HRK -7 million, while 2020 was influenced by worsened financial situation related to COVID-19 pandemic and risk cost amounted HRK -25.9 million. NPL decreased by 11.4% to the amount of HRK 80.2 million with NPL coverage of 91.9%, while in 2020 it was 76.5%.

Erste Leasing concluded 4,152 new leasing contracts in 2021 with total value of HRK 891.8 million, with a market share of 14.6% as of 30 September 2021 holds third place according to the latest published data of the Croatian Financial Services Supervisory Agency (HANFA).

Total assets of Erste Leasing as of 31 December 2021 amounted to HRK 2,843 million, which represents an increase of 1.3% compared to 2020. Net finance lease receivables and other receivables recorded modest increase of 3.4% compared to last year and amounted HRK 2,551 million with a share of 90% in total assets. At the same time, tangible assets amounted to HRK 235.9 million with a share of 8.3% in total assets and mainly relate to assets under operating lease. Volume of operating lease is decreasing compared to 2020 which is in line with market trends.

Deposits from credit institutions and customers as of 31 December 2021 amounted to HRK 2,350 million with a share of 83% of total liabilities and remained on the similar levels as of 31 December 2020. Other financial liabilities and other liabilities, which relate to received deposits and advances from customers for operating lease, follow the declining trend of operating lease in the portfolio.

Total equity amounted to HRK 427.5 million in 2021 and is higher by 9.1% compared to 2020 mainly due to realized net profit in 2021.

Non-financial Reporting

The EU has regulated mandatory non-financial reporting for companies within the EU with Directive 2014/95/EU, which was implemented in the Croatian legislation in December 2016. Non-financial reporting leads to greater transparency and responsibility of all companies in the European Union. Erste Bank Croatia (EBC) had a prior tradition of informing the public about its activities in non-financial and corporate social responsibility segments in its Annual Reports.

One of the fundamental guiding principles in the business of both Erste Group and Erste Bank Croatia (EBC) is the Statement of Purpose, which rests on a total of seven pillars. Expanding and ensuring prosperity, accessibility, independence and innovation, profitability, financial literacy, focus on people, and serving civil society are six out of the seven pillars, and mostly cover the aspects of sustainable business that EBC aims to achieve. What makes Erste Group different is the last, seventh pillar of entire Erste Group's business, i.e. the so-called third question. Before every decision, the questions "Is this profitable?" and "Is this legal?" are asked, but the question that makes the difference, both for EBC and for anyone affected by Erste, is "Is this right?" This is the question that drives EBC to develop its services and products to the highest potential and thus make the greatest contribution to the individual and society as a whole.

Non-financial reporting and corporate social responsibility enable the Bank to support and promote the development of different segments in society through a wide range of activities, aimed towards the wellbeing of its own clients but also the wider community in which the Bank operates, through supporting various humanitarian and educational as well as cultural and sports institutions across Croatia. In this process, the Bank takes into account the specific regional characteristics and local needs present in the society.

The vision of Erste Bank Croatia in its operations is to be the best bank in Croatia taking care of the security of its clients and offering the best quality of products and services, taking account of the wellbeing of its employees, shareholders and the community. The aim of non-financial reporting is to better inform all interested parties about this vision and about everything EBC does in order to achieve it. Through the segments of business, social and environmental responsibility EBC aims to fulfil its mission, i.e. encourage and support its clients, employees, shareholders and the community in achieving wellbeing together.

EBC's efforts in this segment are aided by a commitment to transparent and open communication with the media as mediators between us and the general public. At the same time, these efforts were reflected in the advertising campaign "Believe in yourself", through which EBC aims to promote positive social and economic values, integration, inclusion and fellowship of all individuals in the society, regardless of age, gender, ethnicity, religious or political affiliation, sexual orientation or marital status.

Implementation of the obligation of non-financial reporting

As already stated, Directive 2014/95/EU, which entered into the Croatian legislation at the end of 2016, stipulates the obligation of non-financial reporting for all companies with more than 500 employees. In this respect, the non-financial report of Erste Bank Croatia was issued as part of the Annual Report.

ECB's non-financial report has been prepared in accordance with the Global Reporting Initiative (GRI standard: core option) Guidelines. As a minimum, the report covers the business, social and environmental responsibility of EBC.

Sustainable development goals

The Sustainable Development Goals are also known as the Global Goals and were adopted by the United Nations in 2015. There are 17 in total, and by fulfilling these goals, the society will achieve a more sustainable living and a better life for each individual, as well as peace and prosperity for all. Precisely prosperity for the society and each individual is one of the EBC's goals, which it is trying to achieve through its operations.

Erste Bank Croatia, as well as Erste Group, supports all 17 Sustainable Development Goals. Taking into account its business form and its impact on society, EBC can contribute by its operation and by achieving six goals:

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

In the future, Erste Bank Croatia, in accordance with the goals of international Erste Group, plans to add to its goals a few more that it believes can contribute to their development and achievement, and relate primarily to business and environmental responsibility of the bank.

Analysis of material topics

The analysis of material topics is the first step to drafting a non-financial report. It provides the organisation with a better insight into the topics that its stakeholders consider relevant and influential. Through talks with some of Erste's stakeholders, the Bank identified several important topics that will be addressed in this non-financial report. In order to make the information as clear as possible, the report is structured in such a way that each of the topics is classified under a specific part of the interested public, i.e. stakeholders. The following groups have been identified as EBC's stakeholders: clients, employees, investors, society, environment, and suppliers.

Some of the topics, such as the topic of Anti-Corruption and Financial Literacy, are relevant to several interested groups of the public, but for better text organisation, they are categorised as one unit.

Through Table 1, Erste Bank Croatia has divided the topics it considers materially relevant to its stakeholders, that is, to the interested public.

Clients

Responsibility in business (SDG 8)

Responsibility in conducting business, especially when it comes to the treatment of clients, represents a fundamental characteristic of EBC's business operations which is reflected in offering special products and services aimed at different groups of clients in response to their current and future needs and living circumstances. Also, EBC has established and implements the fundamental principles of socially responsible business as well as policies and guidelines regulating the prevention of corruption, the management of the conflict of interest and the system for handling reported irregularities and whistleblower protection (whistleblowing program).

Client satisfaction (SDG 8)

In order to ensure the conditions stipulated by this SDG, incentives for small entrepreneurs and incentives for innovations are necessary. In this objective of sustainable growth, EBC has recognised its role as an essential factor in generating economic growth. Through operations, EBC aims to take care of the most vulnerable groups of society through the placement of special products. Also, the aim is to prevent the negative effects in the society through responsible business, anti-corruption policies, and employee education. Furthermore, EBC aims to provide as many people as possible with access to the bank's financial assets and services through our programmes of socially responsible banking.

Right to personal data protection

The protection of personal data is a fundamental right of every citizen, and in the banking sector, it is of extreme importance. Erste Bank Croatia is continuously working to improve its IT systems and educate its employees to ensure the highest standards of personal data protection. In order to protect the IT system from security threats, the Bank continuously works on upholding and improving compliance with the PCI/DSS standard and compliance with the requirements of the international Erste Group as well as guidelines for managing IT systems issued by the national regulatory body.

Employees

Diversity and equality (SDG 5, 10)

Gender equality is a global issue that prevents peaceful and stable development and progress of humanity. EBC has been working systematically and hard on combating any gender or other inequality in the workplace, and for this reason, it adopted the Diversity Charter, in which it undertook to implement the diversity and non-discrimination policy in the workplace and business environment. Apart from that, other regulations have been adopted to combat inequality.

Trainings and development of competences

Continuous employee development is one of EBC's key principles. Upgrading professional knowledge, acquiring new competencies in line with the trends and the market, and constant personal development are the basic assumptions for the career path of all employees.

Employee work-life balance and health (SDG 3, 5)

The health and well-being of all, but primarily its own employees is one of the sustainable development goals identified by EBC as extremely important, especially when considering current circumstances. This sustainable development goal is the cornerstone for meeting all other goals. In this respect, EBC provides numerous benefits for its employees, from free annual physical examinations to organised sports activities. EBC systematically monitors market trends and developments and works to improve its business practices.

Society

Social banking (SDG 8, 10)

Income inequality, geographical inequality, gender inequality, unfair distribution of resources by age – the subject of inequality is reflected in all aspects of life. For EBC, this sustainable development goal can be achieved through social banking, which provides equal opportunities and access to funding for all. Also, increasing financial literacy, which allows everyone to have the same starting point in the knowledge of finance, is one way in which good foundations can be laid for progress towards fulfilling this goal.

Financial literacy (SDG 4, 10)

Acquiring a quality education is one of the fundamental rights of every individual, and precisely knowledge is one of the main drivers that pushes society forward. In 2018, the need for increasing financial literacy in the society was identified, so EBC launched the programme of free workshops and video trainings called the School of Smart Finance. By adapting the format to the new circumstances, by the end of 2021, almost 10,000 participants had passed this workshop.

Social responsibility

Through its sponsorship and donation activities, EBC is involved and actively supports various initiatives and projects that contribute to the development and improvement of the society as a whole, both locally and throughout the Republic of Croatia. Also, Erste Bank Croatia endeavours to nurture a two-way communication with the local community and achieve as much transparency as possible.

Environment

Effective management of environmental impacts (SDG 13)

Climate change is no longer a projection set in the future but has become a reality in which humanity lives and whose consequences it has to deal with. More and more business entities are realizing their capabilities in managing climate change and responding to the climate crisis, so an increasing number of those are turning to the introduction of more sustainable business and care for the environment. In the field of ecology and environment, Erste Bank Croatia strives for the highest quality business processes that reduce environmental impact, and care is taken through strategic planning by establishing policies that prescribe relevant standards, but also through day-to-day operations, such as branch offices.
The bank is also trying to encourage its customers to high environmental standards, and it expects the highest quality business processes that reduce its impact on the environment from its suppliers.

Suppliers

Responsibility in selecting suppliers (SDG 10,13)

Erste Group, including Erste Bank Croatia, sees its suppliers as partners in developing the sustainability of its operations. When selecting suppliers, Erste Group takes into account sustainability and corporate social responsibility, and chooses companies that do business in line with international standards that include social and environmental impacts.

Table 1: Analysis of material topics

STAKEHOLDERS	TOPICS OF MATERIAL ANALYSIS	TOPICS OF MATERIAL ANALYSIS ACCORDING TO GRI STANDARDS	CHAPTER IN NON-FINANCIAL REPORT
Clients	Responsibility in operations Client satisfaction Right to personal data protection	Anti-corruption (GRI 205-3) Client satisfaction (additional material topic)	Anti-corruption and tax transparency Products and services Client experience and contact centre, Right to personal data protection
Employees	Diversity and equality Trainings and development of competences Employee work-life balance and health	Diversity and equality (401-3. 405-1) Trainings and education (GRI 404-1) Occupational health and safety (GRI 403-1, 403-3, 403-5), Flexibility in workplace	Diversity and equality and prevention of discrimination Trainings and education Safety, Employee work-life balance and health
Society	Social banking Financial literacy Social responsibility	Anti-corruption (GRI 205-3) Financial literacy programme (additional material topic)	Dialogue with the local community School of Smart Finance Sponsorships and donations, humanitarian campaigns
Investors		Economic results	
Environment	Effective management of environmental impacts	Emissions (GRI 305-5)	Emissions Waste management
Suppliers	Responsibility in selecting suppliers	Responsible selection of suppliers (GRI 308-2)	Suppliers’ responsibility

Clients

Anti-corruption

In order to achieve its vision and mission as well as business goals, Erste Bank Croatia strives towards a high-quality and continuous implementation of the highest ethical standards in corporate management and individual employee behaviour.

Within this framework, EBC has established and implements the fundamental principles of socially responsible business as well as policies and guidelines regulating the prevention of corruption, the management of the conflict of interest and the system for handling reported irregularities and whistleblower protection (whistleblowing program). The **Code of Conduct** regulates the basic rules of corporate behaviour of the Bank's employees with the aim of preserving and further developing the reputation of the banking business and the Bank in the society, promoting the idea of professionalism, responsibility and transparency of operations.

In line with its **Anti-Corruption Policy**, the Bank enters into business relationships only based on integrity and high ethical standards. Employees of EBC must avoid any activities that might lead to or suggest that the Bank will offer or accept bribes. Under no circumstances can the Bank offer any kind of value to a civil servant (or a member of a civil servant's family or any charity organization that a civil servant suggests) with the aim of influencing the recipient to take or desists from taking a specific official action, or with the purpose of influencing the civil servant to do business with the Bank.

Furthermore, the **Conflict of Interest Policy** defines a general framework for identifying and managing potential conflicts of interest and supports the Bank's employees in establishing standards in their work within identified areas where a potential conflict of interest might occur. The policy includes general principles for organizational conflict, the performance of activities that are not job-related, sponsorships and donations, procurement, general principles on receiving business gifts and principles related to the conflict of interest when providing investment services and activities. The Bank works on raising awareness and educating its employees on recognizing situations in which a conflict of interest might arise, and on the measures, principles and actions that need to be implemented in everyday business with the aim of preventing and managing conflict of interest.

In its operations, the Bank implements the principle of zero tolerance towards fraudulent behaviours harmful to the interests and/or assets of the Bank, towards corruption, violation of existing rules and regulations, the Bank's legal acts and ethical principles. The Whistleblowing Policy establishes the process of reporting inappropriate behaviour regarding financial irregularities, corruption, fraud and money laundering, conflict of interest, actions against the Bank's rules and procedures, violating regulations on banking operations and the process of controlling and resolving these reports as well as the manner of responding to and protecting whistleblowers.

EBC continuously educates its employees with the aim of raising awareness of the importance of managing conflicts of interest and preventing corruption, as well as acting in accordance with ethical standards. Furthermore, through training, the Bank tries to encourage employees to report irregularities such as fraudulent actions, violations of procedures and the Bank's legal acts.

During 2021, the bank's employees were continuously educated on topics related to anti-corruption principles, conflicts of interest and the principles of the Bank's Code of Conduct. A total of 2 659 employees were educated on anti-corruption principles and conflicts of interest, 366 employees were educated on the topic of anti-corruption, while 2 293 employees were educated on the topic of conflict of interest.

Tax transparency

Erste Bank Croatia has always been dedicated to tax compliance as well as the observance and consistent implementation of tax regulations. Since it is dedicated to corporate social responsibility, the Bank takes great care to pay all its dues for the public needs of the country it operates in and to pay a fair tax amount, i.e. the amount the Bank is obligated to pay under tax regulations. The Group Tax Office for Croatia was established in March 2017 in order to ensure this.

Tax transparency (continued)

The activities of the Office include ensuring tax compliance of Erste Bank Croatia and its affiliate companies in Croatia as a whole, coordinating tax policies of affiliate companies and cooperation with tax authorities. The aim of the Office is to provide good and efficient tax risk management for EBC Group, in response to new tax regulations, which include EU directives and local regulations. In the context of regulation, it is worth noting that the Bank and its subsidiaries fully comply with the newly implemented
rules on the obligation to report on cross-border tax arrangements (DAC 6), thus demonstrating support in the fight against tax avoidance and tax evasion.

In addition to tax compliance, another important task of the Group Tax Office is to support its colleagues in the Bank and affiliate companies to optimize tax requirements related to their everyday operations. The purpose of the Group Tax Office is to support business lines of the Bank and incorporate existing tax know-how and expertise into every segment of the Bank's operations. The Tax Office closely collaborates with other organizational units in the Bank.

The Tax Code of the Bank was adopted and approved by the management Board in early 2017, regulating the position of the Bank towards tax issues and tax risks. The document is publicly available on the website of the Bank and its purpose is to establish tax principles to be followed by all employees as well as to raise awareness on the importance of taxes in the Bank and the entire EBC Group. The Tax Office continually organizes trainings and workshops for its employees for this purpose.

Products and services

Responsibility in conducting business, especially when it comes to the treatment of clients, represents a fundamental characteristic of EBC's business operations which is reflected in offering special products and services aimed at different groups of clients in response to their current and future needs and living circumstances, while also looking after vulnerable groups of clients, offering products customized to meet their specific needs, such as loans with specific terms and lower banking fees for pensioners. The Bank offers a special savings product for children under the Medo Štedo brand which aims to facilitate the first contact between children and the bank and promote the habit of saving money by offering favourable interest rates and a customized rewards programme. In 2021, EBC continued its activities related to the segment of young clients who have a special current account, Erste Cashtag, introduced for children and young people under the age of 18 which comes with a debit card, which makes it easier for parents to teach children about financial responsibility without charging account maintenance fees.

2020 challenges partly continued in 2021

Since the very beginning of the coronavirus pandemic, EBC has taken preventive measures to ensure uninterrupted continuity of its business activities and availability of services to clients. In this context, particular focus was placed on ensuring the regular functioning of payment operations, the availability of digital banking services, as well as on ensuring a sufficient amount of money across the entire ATM network.

In 2021, as in 2020, clients who had difficulties paying off their loans had at their disposal various methods aimed at helping them pay off a loan, for example, such as grace period or extension of the repayment term. Since 2021, citizens whose properties have been damaged in earthquakes and are located in the City of Zagreb, Krapina-Zagorje County, Zagreb County, Sisak-Moslavina County and Karlovac County have at their disposal a special offer of housing loans for the reconstruction of earthquake-damaged properties. The loan may be used for the construction, upgrade, reconstruction and completion and maintenance of a housing property damaged by earthquakes, interior design and equipping of a housing property, as well as the purchase and installation of equipment in the property, electrical, water supply and gas installations, doors, windows, sanitary facilities, building elements and materials.

Given the significant impact of the current circumstances related to the coronavirus pandemic on the tourism segment, EBC has enabled its clients, who carry out a tourist activity or other tourism-dependent or tourism-related activity, to opt for a credit grace period of up to 12 months. In order to facilitate the submission of client requests, the possibility of submitting the request via the website was introduced as well as the realization of the deferral without clients needing to come to the branch office. Special measures were introduced for private and business clients.

2020 challenges partly continued in 2021 (continued)

In 2021, the Bank continued to actively participate in subsidized residential construction programmes (POS) and subsidized housing loans programmes for the purchase or construction of real estate in cooperation with the Croatian Real Estate Agency (APN) in two waves.

Changes in customer behaviour and habits, technology and regulatory framework continuously require adjustment of the existing business model and the role of individual distribution and communication channels. Branch offices are increasingly becoming centres for consulting and resolving more complex client requests, while clients are increasingly using digital services and self-service devices to perform transactions and resolve simpler requests. During 2021, activities which were part of branch transformation project have continued, which in addition to a new visual identity, is characterized by a new way of working focused on the advisory role of employees and a unique user experience for clients. Through the new process of approving non-purpose consumer loans, the time from approving and disbursing loans has been significantly reduced, as well as the necessary documentation.

In the SME segment, communication activities with clients were carried out in order to educate and present the advantages of using EBC's self-service devices and digital channels in everyday transactions. These products make daily financial management simpler and safer, and optimise the cost aspect of cash operations because they enable clients to achieve additional savings by using them. The advantages were recognized by the client and the trend of further reduction of cash operations and non-cash orders in branch offices has continued, while the use of self-service devices and digital channels has been growing.

As in previous years, the Bank continued implementing existing and securing new financial instruments by signing agreements with domestic and international financial institutions (HAMAG BICRO, HBOR, EIF, EIB, EBRD). Financial instruments come in the form of credit lines, guarantees and guarantee schemes, and are available to micro, small and medium-sized companies with the aim of facilitating access to financing to entrepreneurs.

The Bank cooperated with the Croatian Bank for Reconstruction and Development (HBOR) on regular programmes and guarantee instruments and under the financial instrument "ESIF loans for growth and development" for small and medium-sized enterprises and HBOR Portfolio Insurance of Liquidity Loans for Exporters – Covid-19 Measure.

The European Investment Fund (EIF), as an integral part of the European Investment Bank (EIB) Group, through the EIF EGF guarantee contract signed at the end of March 2021 between Erste Bank Croatia, Erste leasing and EIF, provided guarantees worth EUR 150 million to Erste Bank Croatia, allowing the creation of a EUR 200 million portfolio to finance Croatian small and medium-sized enterprises (SMEs) to mitigate the economic impact of the COVID-19 pandemic. EIF guarantees come from the Pan-European Guarantee Fund (EGF), a EUR 25 billion guarantee facility set up by the EIB Group in 2020 to accelerate the recovery of the European economy from the COVID-19 crisis, preserve jobs and provide much-needed liquidity for European SMEs. Granting the funds secured by EGF guarantees, Erste Bank Croatia offers loans and lease financing to Croatian SMEs on more favourable terms, ensuring that companies have sufficient resources to mitigate the economic impact of the COVID-19 crisis and continue to grow and develop in the medium to long term. In view of the high need to use this guarantee instrument, an Appendix to the Basic Contract was concluded which increased the maximum volume of portfolio to an amount of EUR 350 million. Entrepreneurs showed exceptional interest in this instrument and the entire available allocation was reserved.

In early 2021, a rural development guarantee agreement was signed with the Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO) and in June 2021, a commercial cooperation agreement was signed for the implementation of the state aid scheme for the tourism and sports sector in the current COVID-19 pandemic. The objective of the programme is to support the tourism and sport sector during the pandemic circumstances, and is jointly implemented by HAMAG-BICRO and the Ministry of Tourism and Sports. The granting of funds provided by guarantees from HAMAG BICRO enabled EBC to offer liquidity loans to its customers, micro, small and medium-sized enterprises in the tourism and sports sector, on more favourable terms, including at lower interest rates or longer grace periods, i.e. lighter collateral requirements or extended maturities. This has provided businesses with sufficient resources to mitigate the economic impact of the COVID-19 crisis and to continue to grow and develop in the medium to long term.

2020 challenges partly continued in 2021 (continued)

By signing the contracts and using these guarantee instruments, the Bank provided continued support to individual entrepreneurial sectors, in particular those most affected by the pandemic, in line with its strategic guidelines. As a result, in 2021, three times as many loans and twice as many volumes of loans were granted under guarantee instruments than in 2020. This makes the Bank the best on the Croatian market in terms of the use of EIF guarantee instruments.

Cooperation in the use of contracted lines with special financial institutions with the aim of financing SMEs and MidCap clients has continued, especially with HBOR and the European Investment Bank. The Bank continues to systematically finance projects co-financed by EU grants and develop in-house expertise related to state aid.

In line with its strategic guidelines, the Bank responded to a call for consultations on the new guarantee instruments under preparation under the National Recovery and Resilience Programme (NPOO), the Multiannual Financial Framework (MFF) and InvestEU. In this context, the Bank contributed to the HUB's analysis of guarantee instruments and the need for their flexibilisation in the future and participated in HUP working groups, namely Smart Croatia, Green Croatia and Solidarity Croatia for defining the priorities of MFF.

In addition, cooperation activities with institutions in local markets continued and business cooperation with counties, local administration and self-government units was concluded or renewed throughout the year through various SME lending schemes and programmes for subsidising citizens' housing loans

The Bank operates in accordance with Responsible Business Principles which aim to ensure rules relating to funding, i.e. the provision of services in the area of energy, defence, arms industry and other sensitive industries. Although the Bank does not focus on financing such industries, acting in line with principles ensures that business activities in these industries are conducted in a manner that is responsible towards clients and society in general.

Digitalisation

The Bank is continuously working to digitise its operations and provide new and improved opportunities to customers.

The KEKS Pay app, which was offered to users by EBC at the end of 2018, registered more than 230 thousand users at the end of last year. The application is intended for everyone, regardless of which bank they have an open account in; 75% of users are customers of other banks, while the remaining 25% have an open account with Erste Bank Croatia. From initially providing service of sending and receiving money among friends, the KEKS pay application has developed various other opportunities it currently offers, including the purchase of GSM vouchers and payment of tolls, parking, making donations, paying in webshops and stores that support the KEKS payment. One of the functionalities for which great effort was invested last year was the payment of utilities in cities across Croatia. So far, the utility charges of certain companies can be paid in more than 30 cities, simply, quickly and free of charge.

Among other functionalities of KEKS Pay, one of the most important in 2020, but also in 2021, was the opportunity to donate to various humanitarian initiatives and associations. So, during last year, more than HRK 300 000 was collected for various purposes through the "Donate" option within the KEKS Pay app.

After it was first launched in 2020, the pan-European digital platform George was further developed providing new, innovative functionalities to its clients. Besides providing a better user experience within mobile and internet banking, George is a platform for innovation through which new opportunities are continuously introduced, and with each upgrade, it is becoming an even more advanced, smarter and more innovative platform. In January 2021, for the first time on the Croatian market, EBC enabled the withdrawal of cash credits without additional documentation via George platform to all customers, regardless of whether they were Erste's clients or clients of some other bank which, in accordance with PSD2 regulations, has technical prerequisites for third-party access to the accounts of its clients. The loan can be requested and then realised in a fully digital way, using the George digital platform or in a traditional way at the bank's office. The fact that the entire process, from the application to the disbursement of the funds may take less than 20 minutes is a novelty, if all the criteria for the loan application are met, with only an identity document required from the documentation. In addition, in 2021, users were allowed contract supplementary health insurance and to buy and trade investment funds securities. At the end of 2021, George had over 340 000 users.

Digitalisation (continued)

The continuous upgrading of the EBC website should also be noted. So, following the publication of a subpage of the Bank that was in 2020, which for the first time aggregates all necessary information regarding the support of cross-border operations for clients (via International Desk or Transaction Banking Competence Centre), its English version was published in January 2021. This further expanded access to information to all those interested in future business cooperation related to the regional, i.e. CEE market.

Client experience and contact centre

Erste Bank Croatia places great attention on client experience and aims to be a leading bank in terms of consumer protection and excellent customer experience. The Bank's strategic goal is to provide excellent, simple, accurate, transparent and timely service. In order to achieve this, the Bank operates beyond the framework of what is legally prescribed and, for example, EBC enables the transparent and simple submission and resolution of complaints, with almost 80% of complaints solved within three working days.

Therefore, the client experience is managed systematically and continuously, through a process defined in five steps:
_ By listening to the client's voice
_ By implementing service quality standard
_ By educating employees
_ By measuring client's experience, and
_ By identifying areas for improvement and defining an action plan of improvement.

The purpose of measuring client experience is to create an overall picture of client satisfaction with the provided service, including the overall treatment of the Bank's employees towards the clients. The measuring investigates the area of satisfaction with the Bank's products and processes, as well as the knowledge, expertise, procedures and conduct of employees towards the clients. The measuring results provide specific feedback and the opportunity to improve a client's experience in all contact points with the Bank.

The sources of clients' opinions come from several sides and from several perspectives. There is: mystery shopping, which determines whether employees behave and act in accordance with the pre-defined standards and procedures; client satisfaction surveys, which examine client's satisfaction with the provided service or contracted product (the sample is more than 40,000 respondents per year), and clients' complaints, which are collected and analysed on a monthly and quarterly basis in various categories.

All these measurements are carried out continuously, the results are regularly analysed and reported to the executives, and action plans for the improvements are made. At the bank level, the Committee on Service Quality and Client Experience also operates and its permanent members are the Management Board and directors of the second line of management from those sectors that directly communicate with clients, as well as other sectors that have a significant indirect impact on clients' experience. The Committee meets four times a year and determines the objectives of client experience, monitors the level of customer experience and decides on the priorities for improvement.

There are several basic goals which relate to the client experience, and which are aimed to be secured in the coming period. Further development of services and the possibility of contracting products on digital channels, improvement of the efficiency in processes in order to provide customers with a service in the shortest possible time, and continued transformation of the network in a way that puts the client in focus are just some of them.

Changes in client expectations, behaviour and habits, the technological revolution and regulatory frameworks inevitably require a redesign of the current business model and the role of branch offices as distribution channels for products and services of the Bank and its partners, which is why the network has gradually transformed. The bank network transformation project has been ongoing since 2018, and according to the service model, 13 branches of the Bank have been refurbished so far, with Buzet branch office in 2021 redesigned for the first time according to the Branch Evolution concept, which is an upgrade of the service model for branch redesign. The plan is to continue the redesign branch offices according to the new concept.

Client experience and contact centre (continued)

EBC is available to clients through multiple channels in order to facilitate access to information and allow clients the right to issue a complaint at any given time. In addition to standard communication channels (phone, e-mail, chat, video call), the EBC Contact Centre can also be contacted via WhatsApp and Viber, and, since the end of 2020, the EBC Digital Customers Contact Centre has also provided video identification services.

EBC's long-term focus on excellent client experience in all contact points with the Bank has also been recognised by clients, as is shown in the CXI (Customer Experience Index) results, according to which EBC has been ranked first in the market for years with a significant advantage over other banks. The result of this is evidence that Erste Bank Croatia has successfully, timely and transparently commuted with its clients in the uncertain situations we have encountered in the last two years.

Right to personal data protection

Personal data protection represents a basic right of every citizen. The principles and rules regulating personal data protection ensure the protection of private lives and other human rights and fundamental freedoms when collecting, processing and using personal information, and are guaranteed to every individual regardless of nationality, residence, race, skin colour, gender, language, religion, political or other affiliation, national or social background, health, income status, birth, education, social position or other characteristics.

a) GDPR (General Data Protection Regulation)

Application of the General Data Protection Regulation has brought new definitions and clearer obligations with regard to data protection and the right of every citizen to security and privacy. The regulation added value to EBC in terms of its ability to get closer to its clients through transparent operations, using the legal framework as an additional opportunity and motive to raise the level of safety of the entire security system. The General Data Protection Regulation introduced new definitions, described existing concepts in more detail, strengthened the rights of natural persons and one of the objectives was to raise information security to the highest level in the area of access and management of personal data. In relation to the processing of individuals' personal data, EBC is continuously working on improving relevant business processes. The Bank achieves a high level of personal data protection as well as the exercise of the rights of clients, employees and associates in accordance with positive legal regulations by monitoring best practices and industry standards of information and communication infrastructure management, transparent communication and other technical and organizational protection measures.

b) PCI/DSS (Payment Card Industry Data Security Standard) certificate

In order to protect the IT system from security threats, the Bank continuously works on upholding and improving compliance with the PCI/DSS standard and compliance with the requirements of the international Erste Group as well as guidelines for managing IT systems issued by the national regulatory body.

EBC continuously renews the PCI/DSS certificate. This standard confirms that the Bank's operations are in compliance with this high-quality international payment system standard, which requires continuous investment in technology and business processes with the aim of ensuring security for the clients and their sensitive card data. Information security policy, the process of handling data and computer network structures are just some of the twelve areas of strict requirements that companies must meet in order to ensure data protection. Consequently, in 2020, the Bank successfully completed the recertification process confirming that its business processes are in compliance with PCI/DSS standards.

Employees

The goal of EBC is to be the best bank in Croatia that cares about the safety of its clients and provides products and services of the highest quality while taking care of the well-being of its employees, shareholders and the community. Employee care is one of the cornerstones of EBC's culture, which includes all employees and represents all the activities EBC undertakes to ensure that all employees are in a comfortable and high-quality working environment pleasant characterised by mutual respect and consideration.

The individuality of each employee is appreciated and respected, as well as the fact that they enrich the organisation with their diversity. Therefore, EBC strives to provide its employees with a motivating working environment via career benefits, with emphasis on creating a meaningful and purposeful job, providing intellectual progress and opportunities to acquire new knowledge and skills, ensuring good and healthy interpersonal relationships, economic security and stability, and ultimately care for one's own health. Also, special attention is given to gender equality and reduction of inequality, ensuring quality working conditions and social dialogue, preventing human rights violations and discrimination, and striving for maximum transparency and dialogue with the local community.

Diversity and gender equality and prevention of discrimination

Erste Bank Croatia has a total of 2467 employees, of whom 1798 are women, while 669 are men. Employees aged 30 to 50 are predominant.

Table 2: Employee structure

TOTAL		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
women	men	number	%	number	%	number	%
1.798	669	268	11%	1.806	73%	393	16%

Women account for 72.9 % of the employees and the remaining 27.1 % are men. Regarding women in managerial positions, their share in 2021 remained at the same level as in the previous year accounting for 33% in top management positions, a very good percentage of 42% in B-1 positions and 66% in middle management positions. Our aim is to preserve the positive trend recorded in recent years in the future and further promote female leaders, so that their shares are stable and grow over time. The average age of the employees in the company is 40.4, while the average age of employees in management positions is slightly higher and is 46.7.

Table 3: Structure of managing bodies

SUPERVISORY BOARD	women	men			
	33%	71%			
MANAGEMENT BOARD	women	men	<30	30-50	50>
	0%	100%	0%	17%	83%
B-1	women	men			
	42%	58%			
B-2, B-3, B-4	66%	34%			
Total Top mgmt	33%	67%			

Combating discrimination is provided in the Code of Ethics, while the Rules of Procedure and Collective Agreement describe the procedure for reporting and the activities to be undertaken by persons authorised to deal with complaints. A special decision of the Management Board appoints persons from the Legal Affairs and Human Resources Sector to be responsible for resolving complaints related to claims for the protection of dignity and protection against discrimination within EBC.

Diversity and gender equality and prevention of discrimination (continued)

Special attention is paid to preventing discrimination in the recruitment and selection process – EBC's calls are open to applications from all interested candidates who, according to their competencies and experience, meet the conditions of the workplace, regardless of gender, age, nationality, etc. Through individual or group counselling, managers are working on raising awareness of unconscious discrimination in order to make quality and impartial decisions regarding the selection of candidates, and the prohibition of discrimination is integrated as one of the key elements in Employment Policy.

In early May 2017, the Diversity and Inclusion Policy, available in Croatian and English, was adopted. It regulates the principles of diversity and inclusion with which the EBC undertakes to comply. Diversity and Inclusion Policy is a document updated every year, which describes the impact of an inclusive culture on both clients and employees. In 2021, the policy has been substantially revised in cooperation with the Erste Group's diversity management and an Erste Group Diversity Charter has been added, which is valid at the international level of the Group. Erste Group's diversity management is organized as a "Group Function" and is located within Erste Holding, as part of the Sustainability Management Office.

EBC responds to a variety of initiatives, panels and lectures on diversity and actively promotes it at all professional conventions outside the bank.

In 2020, the strategy of goals related to the senior management structure was revised at the level of the Erste Group and long-term goals for the 5-year period were defined, which will be monitored in two steps. The target regarding the share of women in top management positions at EBC was defined as follows: 34 % by 2023 and 41 % by 2025. Data from 2021 show that the target, which has been defined as the first step, has already nearly been achieved seeing that the current share of women in top management positions is 33%. The focus of the strategy for achieving this goal is on developing a corporate culture and career management tools that support all employees regardless of gender.

In addition to supporting female executives, the focus is also on ensuring equal opportunities for the advancement and development of employees of different age groups, especially those under 30 or over 50, and encouraging successful collaboration in multi-generational teams. Thus, special attention is paid to ensuring that lifelong learning is always a part of the development initiatives and that the 50+ employee segment is equally involved in all educational activities.

Following the successful launch of a number of initiatives and activities called #razlicitoplavi in 2019, aimed at supporting diversity in the organisation, they continued to be implemented in 2020 and 2021 despite all challenges. EBC took a step further in raising awareness of stereotypes and prejudices. During May 2021, the European Diversity Month, EBC actively joined the initiative. Moreover, the entire month of May was dedicated to raising employees' awareness of the importance and benefits of appreciating diversity. The first meeting of the Diversity Committee and a panel discussion on diversity, available to all employees, was organised precisely for this purpose. Both events were sponsored by the Chairman of the Management Board of the Bank, Christoph Shoefboeck, who also actively participated in these discussions.
In addition, a series of workshops titled "Embracing diversity for better decision-making" were held throughout the year, encouraging participants to consider how to join the fight against stereotypes and prejudices on a personal level. Part of the workshops was further adapted to managers, with a focus on unconscious bias in the recruitment and team management processes.

The diversity communication activities continued via the intranet, in a manner adjusted to events in 2021 and the needs of EBC employees. Special attention was paid to the inclusion of diversity as an important topic in the process of introducing new employees. In order to raise awareness of the importance of gender equality, all materials, instructions, and guidelines for new employees were written using the feminine gender providing an explanation of why this was done and why diversity in EBC is important. Moreover, the EBC has continuously been working on benefits that support diverse groups of employees and contribute to the work-life balance.

At the end of 2021, an additional gender-neutral designation "d", as in "diverse", was introduced in job openings appended to the job title, in addition to the usual designations "f" for females and "m" for males. In this way, EBC aims to convey a message about the importance of recognising diversity not only internally within the organization, but also for the public, thus contributing to rejecting stereotypes in our social environment.

Diversity and gender equality and prevention of discrimination (continued)

In order to motivate EBC employees to use parental leave, in 2020, a special e-mail to each new father was sent which included a congratulations message for a major life event, listing the benefits of staying on leave with the child and basic information and instructions on exercising the right to use parental leave. This practice continued throughout 2021 with evident positive effects — around 20% of fathers working in EBC choose to use parental leave, while this share at the Croatian level is about 7%.

Additional support was provided in 2021 for employees who are parents and who experienced loss. This refers to the possibility of taking paid leave of up to one month for pregnant women, partners of pregnant women, fathers, mothers, adoptive parents, foster parents and guardians in the event of spontaneous abortion, a stillborn child and the death of a child under the age of 18. In addition to parental leave, in-house psychological support and counselling was offered to employees.

In October 2021, a half-day online event was organised on financial literacy, green investment and personal financial management intended for all employees, in particular women as more a vulnerable group when it comes to such topics. The event was organised as a joint initiative and with the joint engagement of local diversity managers from all international Erste Group member countries. It is the first virtual event organised in such a way, with all countries actively participating. The agenda included a panel of various experts (including psychologists, financial experts and futurists), who conveyed their vision of future of financial investments, and a local workshop with practical advice on financial management tailored to each country.

In November 2021, EBC took part in a social media campaign on the promotion of women's equality at work called 'Nije u redu' ('It's not OK) (https://nijeuredu.com/) organised by CESI. The Bank was represented by the director of the IT and Organisation Division who pointed out in a commemorative statement that nearly 40% of the IT sector in EBC is made up of women, compared to just over 50% in management positions within the sector.

At the end of 2021, the Bank participated in the DOP Week event organised by the eSTUDENT student association with a lecture on diversity management in organisations.

In mid-2020, regular management reporting on the basic diversity parameters in EBC was launched. Data on gender and age distribution among different groups of employees are now part of the monthly report on employees intended for directors. In this way, diversity is monitored using numbers and figures and management awareness of the importance of diversity management is strengthened. In 2021, the report was redesigned and is now easily accessible to management via the internal intranet platform.

In 2021, no cases of discrimination were reported.

Diversity Charter

The Diversity Charter is a document drafted individually by each country, and the text of the Charter is signed by business and other organisations, thus undertaking to implement diversity and non-discrimination policies in their workplaces and business environment. The project started in 2018, and EBC is one of the signatories of the Charter, with the aim to emphasise diversity in creating a stimulating work environment.

The Croatian Business Council for Sustainable Development is an organisation promoting the implementation of CSR in Croatia, and the Charter serves as a contribution to social development and the promotion of equal opportunities for all social groups. EBC is an active member of the network of experts in this field at the European Union level.

In early 2020, EBC joined the Alliance for Gender Equality, an initiative that brings together companies that advocate increasing the number of women in management and other positions, equal pay for equal work and equal opportunities for advancement. Through quarterly meetings of the Alliance, there is an opportunity to exchange experiences and good practices in the field of women's empowerment for management functions with other members and support each other in the implementation of such practices. In March 2021, EBC participated in the Forum organised by the Alliance for Gender Equality on the occasion of International Women's Day. The head of Human Resources Division at EBC was a panellist at a round table on challenges in companies' engagement on equal opportunities for women.

Diversity charter (continued)

At the end of 2020, EBC joined the European project Diversity@Work, coordinated in Croatia by the Diversity Charter. The project includes 80 organisations from ten EU countries, and its aim is to test tools for promoting diversity in organisations, adapt them to practice and ultimately enable organisations to apply the tools to their needs. Completion of the project is planned for next year due to the coronavirus pandemic when final materials will be available for use.

Code of Ethics

The EBC Group Code of Conduct is the point of reference for all actions and behaviours and serves as a link in acts regulating employee behaviour during the performance of their activities. It describes all relevant points, clearly defines obligations, and sets the grounds for action for all employees as good corporate citizens. The Code also regulates the need for responsible behaviour, respecting others and sustainability in all aspects of operations, thus protecting the good reputation of the Bank and gaining trust towards the institution.

By adopting the Code of Conduct, the Bank wishes to ensure a certain quality and business sustainability standard through the prism of its employees and corporate culture. The EBC Group Code is also a continuous development process with no expiration date or period of application and is mandatory for all employees. It is available in Croatian and English.

Guidelines from the Code of conduct are provided to new employees through workshops via MS Teams (sales network) and e-learning training course. Since the bank introduced a new LMS system at the end of 2021, the e-learning course was redesigned and is now available to employees via their official mobile devices. By the end of 2021, 92% of new recruits had taken and successfully completed the online training course.

Internal service quality

The process of internal service quality management is one of the ways to establish cooperation between different units of the Bank and EBC Group. Through this process, the employees have an opportunity to provide open and constructive feedback on their cooperation with various organizational units and request feedback on their work, based on which they can improve the ways in which they cooperate with others.
This process also establishes criteria internal services must meet in the form of guidelines and standards, but also in the form of key performance indicators (KPI) for the second management line, which are defined based on results of internal research. The internal quality KPIs extend to lower hierarchy levels, as objectives describing certain activities that need to be taken in order to improve cooperation with others.
The systematic and continuous work on internal quality is important primarily for the Bank to ensure excellent services for external clients, and also to strengthen corporate culture based on community and teamwork.

Vezica

As an additional recruitment channel, the “Vezica” (“Connection”) programme was established in the last few years, which is a programme for attracting new, high-quality IT employees using the network of existing employees. Together with the IT sector and organizations, certain IT positions are singled out, of which the bank is in shortage, and existing employees are rewarded if they proactively recommend a candidate who becomes an employee at the EBC. In this way, it is ensured that existing employees become promoters of Erste Bank Croatia as well as the selection of candidates who might not have applied through a standard job ad.

Spajalica

Spajalica (“Get-Together”) is a programme connecting employees with the Management Board, offering an open communication channel through which employees in cities across Croatia have the opportunity to talk to Members of the Board and share their thoughts, experiences, priorities and plans throughout the year. This form of communication with the Management Board was not continued in the last two years due to the special circumstances, but it is planned to continue as soon as epidemiological circumstances allow it. Nevertheless, the Management Board and employees had the opportunity to communicate via an internal communication platform - intranet, where information is published in form of text news and videos about the Management Board's opinion and answers on various topics.

Continued and quality cooperation with employee representatives (Workers' Council and Trade Unions)

The Bank continually works on improving the cooperation with employee representatives so that this open communication channel can also contribute to the growth and development of corporate culture, the organisation as a whole, and all its employees. This is achieved through regular monthly meetings, an open-door policy, and quarterly meetings with the Management Board and the Workers' Council. In 2021, despite the circumstances, these meetings were organized quarterly in a way that the epidemiological situation permitted, most often online. Collective bargaining agreement was concluded in 2006, and since then, it has been renewed upon each expiry with great success and in the spirit of mutual cooperation and good will.

In addition to this, Erste Bank Croatia actively encourages sharing knowledge among organizational units, sectors and employees. Work-training meetings are regularly organized with all organizational units as an opportunity to share information, attend various workshops etc. Work-training meetings are organized within one organizational unit or several related units and are a part of the Bank corporate culture, with the purpose of advancing the collective knowledge and awareness of employees within different organizational units. Sharing knowledge improves and develops already established processes, but also establishes new ones, with the vision of improving the level of shared direction in operations and corporate culture. Through 2021, sharing knowledge and work-educational meetings were organised via new virtual communication tools. The recommendation to all organizational units was that, regardless of the circumstances, they maintain exchanges of information among teams and adapt them to online collaboration tools, thus maintaining the team spirit and involvement of their employees.

Blue elephant

This corporate culture project was launched with the purpose of actively managing ECB's corporate culture. It is a common denominator for all activities, values, and behaviours through which corporate culture is defined and supported. The name and identity of the Blue Elephant are manifested through a shared and systematic description of all activities of the Bank, the values, behaviours, and characteristics that define and support corporate culture and its development.

The concept, vision and mission of Blue Elephant are defined through the following segments of corporate business and employee involvement:

Employing a particular ("right") profile of people
- *Super profile* – defining a universal and optimal profile of candidates for specific jobs (e.g. cashier);
  Cooperation
- Developing the culture of open, honest and constructive feedback with mutual respect;
  Impact and development management
- Lowering responsibility, delegating tasks, promoting and celebrating success, having credibility;
  Consequence management
- Communicating good and bad things/segments in a timely manner and assuming responsibility;
  Innovativeness
- Dedicating time and resources to the development of new ideas and innovativeness in employees

Blue Elephant activities and all related communication are based on the principles established by the Statement of Purpose, a strategic document by the international Erste Group, which gives priority to promoting and ensuring prosperity, serving civil society and the people, as well as setting the validity of procedures above the category of profitability.

#radimpametno

In mid-2020, prompted by the changes in the way of working, communication and cooperation caused by the pandemic, the initiative #radimpametno (#worksmart) was launched – a platform whose aim is to enable smarter and better work and focus on the real values that are important for both employees and EBC clients. The idea behind the name of the initiative was to encourage review, adaptation and change of everything that is not in accordance with common sense, that relates to the future of work.

#radimpametno (nastavak)

The initiative is conceived as a platform through which a future organisation of work is created, with a focus on the adaptation of culture, processes and infrastructure used in the EBC operations and work. A wide range of activities focused on the abovementioned aspects were carried out throughout 2021, and the first phase of the project was completed at the end of 2021.

#radimpametno activities are divided into three areas and significant achievements have been achieved in each area:

- Infrastructure

_ complete technical requirements for #radimpametno mode ensured for all bank employees – 1,200 mobile devices and 700 laptops allocated, improved mobile tariffs, distributed headphones for everyone, improved network and WiFi infrastructure
_ tools created for employees to facilitate successful use of technical equipment
_ MS Teams implemented as a collaborative tool with instructions and training provided to all employees
_ adaptation and renovation of business premises completed in Bjelovar and initiated in Zagreb
_ rental of additional business premises abolished and significant savings achieved

- Culture

_ flexible work models introduced where possible, primarily the remote work model according to the “3:2 or 2:3” system
_ defined and implemented guidelines for “smart” meetings and communication via e-mail
_ “Development Friday” promoted – Friday as a day without meetings dedicated to personal and team development
_ Erste Flexi leader and Flexi employee model defined and promoted and development activities organised in support of these models
_ A new LMS system has been implemented that supports #radimpametno values – modern, easy to navigate, accessible via mobile devices

- Processes

_ key company processes, employment and onboarding of new employees, redesigned by #radimpametno principles
_ #radimpametno principles defined as development goal for all employees in 2021
_ entire organisation encouraged to reflect and redefine critical processes in line with the #radimpametno principles

The project will continue to be implemented in 2022 with a focus on the further adjustment of key processes, elimination of fixed telephone lines, the introduction of Erste PUNKT central office for internal services related to office operations, and gradual introduction of desk-sharing work models by redesigning business premises and preparing employees for such work model.

Trainings and education

Continuous employee development is one of EBC’s key principles. Upgrading professional knowledge, acquiring new competencies in line with the trends and the market, and constant personal development are the basic assumptions for the career path of all employees.

As in the previous year, most of the education activities in 2021 were provided to employees in the form of webinars, online training and workshops, e-learning and educational video materials. Nevertheless, the number of hours of education has increased, even compared to pre-pandemic 2019.

Table 4: Number of hours and average number of hours of training at EBC

	WOMEN	MEN	MANAGERS	EMPLOYEES
Number of hours	77.731	24.851	13.447	87.293
Average number of hours	43	37	47	41

Trainings and education (continued)

Development needs are determined using the Training Needs Analysis (TNA) which analyses strategic competence needs, the existing level of knowledge in the organisation, as well as competence trends for a particular business area in the coming period.

According to the TNA results, educational activities are created and organised and the optimal form of training is defined — webinar, online workshops, e-learning, coaching, mentorship, internal knowledge transfer, in-house rotations, project work, etc.

The main focus of development activities is divided into:

a) Expertise — functional-specific training — professional seminars and workshops, certifications, conferences, etc.

b) Personal development — training organised to develop personal competences such as presentation and communication skills, negotiation, conflict management and others.

An important part of development activities relates to leadership skills for managers — from motivation and team management, situational leadership, empathetic leadership, the use of leadership models and tools, to instructions for managing virtual and remote teams that have gained great importance over the past two years.

Another category of personal development that culminated during the pandemic period is the preservation of employees' mental health and coping with uncertainty. Employees were offered content related to the challenges of working from home, balancing private and business life during lockdown situations imposed due to the pandemic, coping with stressful events and psychological empowerment. Such content was available to employees via video materials and written content on the intranet, webinars and online workshops and e-learning.

Employees were also offered a range of open educational content via shorter webinars or online workshops that they apply for according to their individual needs and interests.

An important education channel is Erste Guru, a local online learning system that provides access to various educational topics via videos, presentations, etc. Erste Guru is also a place where employees receive all mandatory, regulatory education — from current product offers, sales skills, GDPR education, competition rules, cyber security topics, etc. In 2021, All employees underwent several educational courses via Erste Guru, which greatly accelerates and expands the scope of development activities in the organisation.

All employees have the opportunity to apply for some of the training at their own initiative, regardless of their job type or role. Last year, every EBC’s employee underwent some form of training. Out of the total number of days invested in training, 77% were internal training organised and facilitated by internal trainers from the Bank, employees of organizational units or Human Resources Division, which shows that EBC is still making very intensive use of the internal knowledge database and internal trainers.

Compared to the previous year, the average number of days of education per active employee has reached its pre-pandemic level and now stands at 5.2 days.

Table 5: Average number of training days per active employee

2018	2019	2020	2021
4.17	5.08	4.25	5.20

Employee programmes

In 2021, due to business line needs, development of various tailor-made programmes for specific groups of employees continued:

_ *Erste Start* – a modular programme for the development of leadership skills and soft skills for newly appointed managers,
_ *Erste Forward* – a modular programme for upgrading leadership and soft skills for managers
_ *UP* – programme for the development of managerial and sales skills for sectors in business operations with corporates,
_ *HR refresh* – a programme for line managers related to current issues and practices managers encounter in their everyday operational staff management,
_ *E-Leadership Academy* – programme for top manager, for the development of modern leadership skills and adoption of new trends and strategic competences
_ *Tips & tricks* – online programme for managers with tips pertaining to the most important leadership areas (feedback, stress management, assuming responsibility, etc.) tailored to the needs of the particular organisational unit
_ Specific targeted programmes for individual organisational parts, depending on established development needs

Erste Bank Croatia employees also have the possibility of attending various specialized training sessions organized by the owner, Erste Holding. These training sessions cover the needs for specialized training which is not available on the market or the number of experts at disposal is too low to organize an in-house program. The following was successfully realised in 2021:

1. Group Graduate Programme (GGP)
2. Project Financials
3. Certified Scrum Master (CSM)
4. Certified Scrum Product Owner (CSPO)
5. License-to-lend
6. Strategic Risk Management Programme
7. Webinar Series for Corporate Workout and Restructuring
8. EA Programme
9. Group Data Governance
10. Group Data and Reporting Governance Advanced Training
11. BA Qualification Programme
12. Tableau Workshop

A special emphasis is also placed on identifying and developing talents, i.e. employees who show high potential. International programmes are organised for them at Erste Holding level, as well as at the local level.

Development programmes are organised in cooperation with local and international educational institutions and experts, but largely also via internal transfer of knowledge, by internal coaches and educators.

Due to specific circumstances during 2021, most of these programmes were shortened, and wherever resources and contents of the programme permitted, programmes were held online.

Employee work-life balance and health

In the last two years, EBC has a new position – Employee Benefit and Satisfaction Coordinator. Their task is to integrate, structure and improve the pre-existing activities and initiatives that fall into the area of employee health care, occasional sports, and training of physical and mental health and introduce new ones in accordance with the employees' interests.

The common denominator of all activities and initiatives is Well.being, developing a culture in which employees take care of themselves and of each other. It is in line with the purpose and priorities of the international Erste Group and forms the basis of common value – for the employer, for the employee and for the wider society.

The wellbeing elements representing the Erste Standard, a document adopted in 2019, cover five interrelated areas that affect one another: career, social aspect, finance, intellectual advancement and health.

Employee work-life balance and health (continued)

In different life situations, the importance of certain elements changes, and it is necessary that all elements are represented and there is a balance between them. EBC pays special attention to the needs of different groups of employees and creates occasional initiatives precisely for them, thus integrating the care of ones for the other into our daily operations, collaborations, processes and development.

For EBC employees, this means being in good health, having security for themselves and their family, having a sense of fulfilment and satisfaction, a sense of growth and development through work and fun.

The last two years were very challenging in terms of well-being and physical and mental health for all employees. To make it easier for them to adjust to working from home and cope with a long-lasting pandemic, in 2020, internal resources launched a 'mental health corner' on the intranet aimed at maintaining mental health and balance, and an Erste hotline for mental health support has been launched. These programmes continued to be implemented in 2021. The idea behind this platform for mental health is to help employees overcome fears and concerns and encourage them to take care of their mental health through conversation with the expert team and regularly published content on current topics. This practice has proven extremely useful as psychological support following the earthquakes that hit the Zagreb area and its surroundings and Sisak-Moslavina County. Moreover, employees were proactively contacted and offered support and advice to help them cope with the consequences of the earthquake.

In order to meet all the set goals, Erste employees have the following benefits at their disposal:

- Trainings and development programmes focused on professional growth and development, and additional lectures and workshops that are not closely related to business topics;
- Internal job openings available to all;
- Annual awards depending on the results achieved, appropriate payments (Easter, Christmas bonus, recourse, gift for Christmas child, jubilee awards in accordance with years of work spent in the Erste Group, solidarity allowance for e.g. birth or adoption of a child, death in the family...), reimbursement for meal expenses, reimbursement for travel expenses, payments to a closed voluntary pension fund;
- Flexible working hours where the work process allows such organisation of working hours (flexible working hours, shorter Friday, different work start and end schedules, possibility of part-time work);
- Private health insurance policy at a polyclinic with free annual physical examination, with a cheaper price for indicated examinations, voluntary health insurance policy at the employer's expense, 24-hour accident insurance, preventive flu vaccination at the employer's expense; Covid-19 vaccinations organised in the largest cities and Bank locations
- Multisport – a co-financed membership fee for using various activities in sports facilities throughout Croatia, participation in sporting events (banking games, humanitarian races, football league, etc.);
- Paid leaves to perform a physical examination, blood donation, relocation, birth of a child, the first day of school and kindergarten, wedding, for educational purposes, corporate volunteering, participation in cultural, sports and other activities organised by the employer, etc.;
- Unpaid leave in other life situations which requires more time devoted to private obligations and solidarity;
- More favourable products of the Bank and associated companies and additional benefits in terms of cheaper prices of services and products made possible through a wide and stable network of external partners in several categories (e.g. culture, sport, health, beauty, entertainment, travel, knowledge...);
- various initiatives that provide entertainment for employees and their children during their workday (marking Ugly Christmas Sweater Day by wearing Christmas sweaters on a given day in December, organising appropriate activities for children (art competitions, collecting Christmas gifts for children living in homes without parental care).

All health benefits are available equally to all employees.

Table 6: Total number and rate of new employees during the reporting period

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
100	66%	52	34%	69	45%	75	49%	8	5%

Table 7: Total number and rate of employee fluctuation during the reporting period

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
167	9%	66	9%	60	16%	132	7%	39	11%

Table 8: Rates of return to work and retention for employees who have used the right to maternity leave

2020				2021			
WOMEN		MEN		WOMEN		MEN	
number	%	number	%	number	%	number	%
108	81%	9	100%	115	88%	9	100%

Safety

In order to ensure the integrity of its business processes and thus to protect the personal data of its employees, clients and associates, EBC is making continuous efforts to raise the level of security - a key area for the regular operation of the Bank. Raising awareness and educating EBC employees is one of the key foundations for successful and continuous operations. All employees are required to attend safety training on an annual basis, and special attention is also visible to new employees who are necessarily undergoing a set of initial trainings in which the role of security also plays a role.

Occupational safety represents an important segment in everyday operations of the Bank. Last two years, this segment took on an extremely important function of prescribing and implementing measures to protect against the coronavirus according to the recommendations of the National Civil Protection Headquarters of the Republic of Croatia. In order to protect and prevent EBC employees, as well as employees in related companies of the Bank, the epidemiological situation was regularly monitored, and based on that, new working methods were organized and recommendations related to the work of employees were created.

Occupational safety as a system prescribes a range of organization measures in work processes with the aim of protecting employees from injuries, work-related illnesses as well as securing their ability to work throughout their careers. In implementing occupational safety, EBC uses basic, special and approved rules, and the primary legal framework is set through the Occupational Health and Safety Act. Employees within the Bank are trained in different segments. They receive theoretical and practical training, depending on the type of training required. Since the employer is responsible for all persons employed, each newly employed person will be assigned a mentor before safe working practice training. The purpose of the training itself is to inform workers of all facts and circumstances which affect or are likely to affect their safety and health (relating to the organisation of work, risks, methods of performance of work procedures, etc.), to clarify and train the worker for the practical application of the occupational safety measures he or she is required to apply during work, in accordance with the Risk Assessment. Safe working practice training shall be conducted in accordance with all applicable regulations of the Republic of Croatia. Upon completion of the training process, a document is issued as evidence of qualification, a uniform “ZOS form” — Record of evaluation of a workers’ ability to apply safe working practice.

Safety (continued)

The occupational safety system includes the development of a Risk Assessment, which includes all risks related to tasks in all job positions at the Bank. After analysing the type and level of risk intensity, the plan of measures provides proposals for the application of basic and specific occupational safety rules, i.e. the application of the principles of occupational safety (elimination or risk mitigation, de-risking of workforce, ring-fencing employees from risk and vice versa, use of personal protective equipment) and implementation deadlines, responsible persons and control methods in the implementation of established occupational safety measures.

Occupational safety also covers fire protection training and insistence on evacuation in case of emergency. In addition, by maintaining facilities based on SLA (Service Level Agreement within the maintenance agreement) and the legal obligations, direct attention is paid to employees' health through regular cleaning of ventilation ducts, air conditioners, office cleaning and disinfection, DDD measures (disinfection, disinsectisation, deratisation) and other preventative space maintenance. The field of occupational safety also includes occupational medicine, which provides employees with pre-employment medical examinations and pre-employment, periodic and extraordinary medical examinations and control check-ups for jobs with special working conditions, in accordance with the applicable occupational safety regulations, at the employer's expense.

EBC has delegated three occupational safety experts whose task is to provide professional assistance to the employer and his representatives, employees and workers' representatives in charge of occupational safety for the implementation and improvement of occupational safety. In addition, the occupational safety expert participates in the risk assessment process, performs internal supervision over the application of occupational safety rules, encourages and advises the employer and his representatives to remedy occupational safety deficiencies identified by supervision, and also performs a number of other tasks related to the coordination and management of training of workers related to safe working practices.

Salaries

EBC's salaries and benefits policy is guided by the principle of transparency (all pay grades are publicly available to all employees), the market principle and the principle of safety and stability for employees and their families. Compliance with these principles is one of the cornerstones of decision making in the area of salaries and benefits. The fact that more information has been available on EBC's website since last year greatly contributes to the transparency of salaries and benefit policies. Also, as noted above, during 2019, the Erste standard of benefits was defined, which EBC undertook to follow in both good and difficult times.

Society

Social banking

EBC sees entrepreneurship as a positive model for addressing social issues or situations. From the Bank's perspective, supporting a sustainable entrepreneurial project instead of a one-off sponsorship and donation can be a long-term solution. Erste's social banking initiative encourages the financial inclusion of start-up entrepreneurs, non-profit organisations and social entrepreneurs, offering them access to financial products, financial consulting and ongoing mentorship tailored to their needs. So far, more than HRK 60 million have been allocated for this purpose with more than 330 clients have been supported and more than 420 jobs created.

In 2021, EBC provided HRK 10 million to support start-up entrepreneurs, a special group of clients, persons who are self-employed, i.e. start-up entrepreneurs who have started their own business, craft or family farm in the last two years. This programme encourages self-employment and the development of entrepreneurship, and, in addition to funding, supports the design and realisation of a business idea by implementing free online education on relevant entrepreneurial topics and providing consultation services. In 2021, 173 business plans were drawn up, 522 users participated in the e-learning programme and a total of 570 hours of consultations took place.

In addition to supporting start-ups, EBC is also implementing a programme to support and finance non-profit organisations and social entrepreneurs that were supported with HRK 10 million in 2021. In addition, 486 participants participated in various programmes and 806 hours of consultations were provided.

Non-financial support was also provided by Erste Foundation through the implementation of "0% interest loans" programme — loans with an interest rate of 0% to 6 months. For the purpose of ensuring better availability of all programmes, several partnership programmes such as the Social Impact Award were realized, where support was provided to social entrepreneurs in the form of programme funding, mentorship and jurying "Zalet", where mentorship support was provided to 7 start-up entrepreneurs and cooperation with Business Skills Academy.

According to a survey conducted by the Bank at the end of 2021, 40% of start-up entrepreneurs said that without the support and programme of EBC, they wouldn't have been able to set up their business, while 45% of respondents would have set up the business later or to a lesser extent. 77% of respondents maintained employment, with just under 50% saying they managed to create new jobs, while 78% of respondents said they had achieved more or at least retained the same level of income. The individual consultation was extremely useful to more than 91% of start-up entrepreneurs.

Through the support and funding programme for non-profit organisations, 60% of respondents stated that they had increased the number of activities, while more than 80% maintained the continuity of existing activities. Nearly 55% of respondents managed to maintain the number of jobs and nearly 25% managed to create new ones, while 81% generated higher or at least the same level of income. More than 50% of respondents from the non-profit organisation segment believe that individual consultation was extremely and very useful, while networking was considered useful by nearly 70% of respondents.

Financial literacy

School of Smart Finance

For more than 20 years, EBC has been working in Croatia to improve processes, products and services, all in order to respond to the clients' wishes and needs in the best possible way. Also, due to the fact that knowledge is a driver of the society and social changes, Erste Bank Croatia as a financial institution has a responsibility in the field of financial literacy development at every age.

Therefore, in 2018, based on a survey showing that 87% of citizens recognise the importance of financial literacy, the Bank launched a pilot project entitled Smart Finance School, which includes free educational workshops on personal finance management and interactive video training.

School of Smart Finance (continued)

In view of the epidemiological situation in 2021, the Bank conducted workshops to all interested citizens, businesses and educational institutions via MS Teams application, i.e. where possible, it conducted in-person workshops in line with strict epidemiological measures. A total of 97 workshops (49 MS Teams workshops) were held during the year, with over 1,700 participants. The importance of the workshop was recognized by numerous educational institutions (elementary and high schools, faculties and student associations) to which nearly 70 workshops were held, with more than 1,500 participants.

In total, around 9800 participants participated in the financial literacy programme from 2019 to the end of 2021 and over 550 workshops were held. As much as 85% of participants said that the workshop has encouraged them to adopt good financial habits.

Other

In addition to the comprehensive project of the School of Smart Finance, it is worth mentioning some of the other initiatives of EBC and its employees in the field of increasing financial literacy.

This is especially emphasised on Savings Day, which is marked in the Bank by the arrival of kindergarten and elementary school children to the branch offices, where they have the opportunity to talk with cashiers, advisers and personal bankers and ask anything they want to know. EBC's savings mascot Medo Štedo is especially interesting to children and also plays a large role in promoting financial literacy.

Also, EBC has supported and participated in the traditional celebration of World and European Money Week for many years.

Employees of EBC are happy to respond to the invitations to participate in other workshops, lectures and events organised to increase financial literacy.

Due to the specific circumstances, and depending on the epidemiological situation and recommendations, some of these activities took place in-person, while some were held online.

Social responsibility

Dialogue with the local community

EBC endeavours to nurture a two-way communication with the local community and achieve as much transparency as possible. This is also fostered via partnerships with numerous associations, faculties, exhibitions and presentations at fairs, conferences and conventions throughout Croatia. In 2021, the following was successfully realised:

- Participation at the 2021 Career Week organised by the Faculty of Organisation and Informatics in Varaždin (a stand at the 'Career špancir', participation in a panel discussion on business analysis, organizing workshop for students)
- Participation in the Open Day and Career Day at the Faculty of Electrical Engineering, Computer Science and Information Technology Osijek (online stall, presentation to students)
- Participation in the Career Day at the Faculty of Science in Zagreb (stand, presentation to students, informing about opportunities for student practice)
- Several guest lectures for students by our IT experts at Bjelovar University of Applied Sciences and the Varaždin Faculty of Organization and Informatics.

The pandemic also impacted the ability to hold professional practical training for students. In 2021, at EBC, only 5 students performed their professional unpaid practical training, which is a requirement for fulfilling their obligations at the university or provides a basic insight into a real business environment in which the student is interested.

In 2021, as in the previous year, it was not possible to hold EBC's summer student programmes – BizLab (previously General Rehearsal), and ITLab and MathLab.

Dialogue with the local community (continued)

With its student programmes, EBC joined the Youth Initiative as early as 2018, which was launched with the aim of facilitating the inclusion of young people in the labour market. The Youth Initiative was launched by the Croatian Employers' Association and the European Bank for Reconstruction and Development, while EBC wants to bring the possibility of acquiring quality first work experiences and potential further employment even closer to young people.

It is also necessary to mention the segment of non-profit organisations which participated or continue to participate in programmes for novice entrepreneurs which the EBC facilitates, and the work of which it also supports, not only financially, but in various other ways as well, such as by taking part in marketing, promoting their activities on the bank's communication channels etc.

Scholarships

During previous years, students could apply for the “Best of South East” scholarship programme, initiated by Steiermärkische Bank und Sparkassen AG (Sparkasse Bank) in cooperation with the University of Graz. It is intended for graduates and students with very good grades and expressed characteristics such as dedication, developed communication skills as well as analytical and practical economic thinking. The programme comprises a one-year traineeship programme at the Sparkasse Bank or another Styria-based company for graduates and one year of studying at the University of Graz for students. Due to the epidemiological situation, the programme was not implemented in 2021, but preparations were launched towards the end of the year to continue with the programme as soon as the conditions allow it.
In 2021, the Bank once again participated in the “Step into Life” campaign by granting scholarships to children without adequate parental care to enable them to attend university. Along with the Rotary Club Zagreb Kaptol, EBC is the largest individual sponsor.

In the fall of 2019, the ECB introduced the practice of providing scholarships for secondary school and university students with disabilities within the framework of hiring persons with disabilities within the quota. This practice was continued in the last school year (2020/2021) and currently, 23 secondary school and university students receive a regular monthly scholarship. In addition to this, cooperation agreements have been concluded with two protective workshops which mostly hire persons with disabilities on the purchase of marketing materials. In autumn 2021, contracts on scholarships for pupils and students with disabilities were signed with a total of 20 students for the school year 2021/2022.

Sponsorships and donations

Through its sponsorship and donation activities, EBC is involved and actively supports various initiatives and projects that contribute to the development and improvement of the society as a whole, both locally and throughout the Republic of Croatia. Aware of the needs of the community, as a socially responsible enterprise, EBC continued to support numerous cultural, scientific, health, educational, sports and humanitarian projects during 2021.

A total of HRK 14.82 million were allocated through the sponsorship and donation programme in 2021. Of the regular sponsorships projects which the ECB has been supporting for many years, most of them were held with adjustments to epidemiological conditions, while a smaller number of events did end up being cancelled due to epidemiological reasons.

Summary of most important initiatives which the bank supported through sponsorships and donations:
- around 170 projects and institutions of humanitarian character
- around 100 projects of educational character
- around 200 sporting clubs, associations and projects
- around 80 projects and institutions of cultural-artistic character

Through its sponsorships in 2021, EBC supported the Device Art Festival in MSU — an international festival dealing with technological devices, machines and robotics in contemporary art, the Ulysses Theatre, the Austrian Cultural Forum — the Erwin Wurm exhibition in Lauba, Exhibition ‘Picasso and Miro: Friendship of Freedoms" at Juraj Šporer Art Pavilion in Opatija, BOK fest Bjelovar, Samobor Music Autumn, Samobor Carnival, DOKUart documentary festival which encourages children and young people from all over Croatia to make their own documentaries, Christmas Gala Concert in Bjelovar and many other projects.

Sponsorships and donations (continued)

EBC has also supported a series of other cultural events, which contribute to the promotion of local customs, culture and tourism such as the traditional Alka Tournament in Sinj, International Lace Festival in Pag and other traditional manifestations specific to a certain region or city in Croatia.

Through the creative platform Urbanka powered by Erste, various international exhibitions were supported, projects such as the Grafiti na gradele, an international festival bringing together world-known graffiti artists, Crtani romani šou, a comic book festival, DA2 film festival dedicated to design, art and architecture, Gallery Rally as an interactive cultural event that connects ten galleries in Zagreb and actively includes visitors in their tour.

A competition for young artists, Erste fragmenti, was held last year for the 17th time. More than 150 applications from young artists were received, works of art were purchased and exhibited in Erste business premises and branch offices across Croatia. In addition, scholarships were awarded to the best young artists. Erste fragmenti exhibition was held in September 2021 at the Kuća za ljude i umjetnost Lauba.

As part of activities aimed at supporting the social community through donations and sponsorships, the Bank supported the education of young paediatric surgeons at the Children's Hospital Zagreb (Klaićeva), supported the Children's Home Nazorova, and the SOS Children's Village for children without parental care. With regard to the donations, EBC supported Koprivnica General Hospital, Čakovec County Hospital, Virovitica General Hospital, Bjelovar General Hospital, Zadar General Hospital and Health Care Home of the Zadar County.

As part of a broader strategy that promotes, among other things, the integration, inclusiveness and fellowship of all individuals in society, EBC has supported the activities of the Zagreb Pride parade.

Knowledge is one of the drivers of creation, progress and growth. Therefore, through donor and sponsorship activities, EBC strives to include as many initiatives, associations, manifestations and events that deal with educational activities as possible. For this purpose, EBC cooperates with various faculties and schools, such as Fran Lhotka Music School in Sisak and the Student Union faculties at the University of Rijeka, the Academy of Dramatic Art and the Academy of Fine Arts in Zagreb, the Rijeka Faculty of Economics, Faculty of Electrical Engineering and Computing and Faculty of Science at the University of Zagreb and Centre for Student Support and Career Development at the Faculty of Organisation and Informatics Varaždin.

In addition, EBC promotes the importance of sports projects and sponsorships that emphasise the importance of promoting sports, and especially promoting awareness of the importance of physical activity in children. Two major projects that are focused on this goal are the Erste Plava Liga and Erste rukometna liga Dalmacije (Handball League of Dalmatia) which were, as of 2020, unified into the children sports platform named Ersta prva liga.

Erste Plava liga is a project intended for all students in grades 3 to 6 of primary schools in Croatia and is designed to help children develop an athletic spirit and to encourage them to play sports. Despite the specific circumstances, the ninth season of the competition was held last year, and the campaign "60 minuta KRENI" included famous athletes, coaches, educational workers and institutions with the aim of providing a contribution and raising equal opportunities and conditions for doing daily sixty-minute physical activity for interested children. The competitions were held in a total of nine cities (Rijeka, Zagreb, Osijek, Makarska, Zadar, Pula, Knin and Vukovar and Čakovec) with a total of 2,631 children participating.

The Erste Handball League is a unique children's handball league intended for primary school students enrolled in grades 2 to 7. By organising this league, EBC wants to show that everyone needs physical activity to grow up healthy and happy and enable children to take part in competitions, socialize and have fun while doing it. World-renowned handball players Ivano Balić and Petar Metličić, together with their handball club, are involved with the organization of the League. They are role models to all competitors of the League and represent additional motivation for the children and clubs to take part in the competition. In the third season of Erste Handball League, which was played despite special circumstances due to coronavirus, competitions were held in eight cities with a total of nine tournaments (Split, Zadar, Šibenik, Dubrovnik, Labin, Poreč, Umag and Pula and finals in Split) and a total of 2,870 children participated.

Sponsorships and donations (continued)

Through sports sponsorships, EBC traditionally supports the Croatian Table Tennis Association, the Erste Beach Volleyball Club Zagreb, the Primorje Rijeka Water Polo Club, Croatian Football Club Rijeka (HNK Rijeka), the Croatian Olympic Committee, the traditional Fiumanka sailing regatta in Kvarner, with more than 200 sailboats participating, Biograd Boat Show, the largest boat fair in the Republic of Croatia, Beach Volleyball Club Erste Zagreb, Osijek Football Club (NK Osijek), Velika Gorica Football Club (NK Velika Gorica) and a number of other regional clubs to promote different types of sports and sports activities among the young generations of athletes. EBC also supported the Terry FOX Charity Run which was held in 2021 but with adjustments due to present circumstances. The funds were donated to the Croatian League Against Cancer and Solidarna foundation.

Initiatives launched by various sectors of the Bank should also need to be noted. Since 2013, the HOPE donation fund has been managed by the Bank. The mission of the fund is to collect employee donations to help orphaned children without parental care, living in children’s homes across Croatia. Employees are free to choose whether they will donate and how much, and can opt for a one-time donation or set up regular monthly donations via an open payment order. The initial idea was to collect small monthly donations from a larger number of employees in order to help children's homes to procure equipment and other necessities that children need. After the devastating earthquake which hit Zagreb in March 2020, more than HRK 94,000 was collected in employee donations which were paid as financial aid to colleagues whose real property was damaged in the earthquake. The same was done at the end of 2020 when a devastating earthquake hit Sisak-Moslavina County — a total of HRK 531,000 was collected. In addition, the HOPE fund collected an additional HRK 13,500 for colleagues in the Czech Republic whose homes were damaged in a devastating tornado. In addition to these donations, the Bank paid an additional aid and thus became actively engaged in helping its employees.

There is also the AZIL initiative, a cashiers' solidarity fund, i.e., a special purpose and completely voluntary fund for covering cashiers' shortages and financial damages suffered by clients as a result of cashiers' mistakes when working with clients. All employees may join the fund, regardless of their job position, but only employees employed as cashiers, treasure cashiers, employees working at the cash register benefit from the fund. The membership fee is HRK 15 a month for cashiers and is collected from members' salaries, while other members that join the fund donate any amount they want, which they specify upon joining a membership application created specifically for this purpose.

Last year, EBC once again supported and actively participated in the project of the international Erste Group entitled Kontakt. The Art Collection of Erste Group and ERSTE Foundation. The collection was founded in 2004 and includes more than many works of art made from different countries, focusing on Eastern, South-Eastern and Central Europe.

Humanitarian campaigns

Erste challenge

For the fourth consecutive year, as part of the campaign that lasted from January to December 2021, the employees of the entire EBC Group in Croatia undertook to reach a mileage target by engaging in a sport or recreational activity with the aim of securing a humanitarian donation. The target was set at 120 thousand kilometres. The target of over 120 thousand kilometres was reached and the Bank donated a total of HRK 120 000 for the kilometres reached, divided among five associations: Association of Parents of Vitally Endangered Children ‘Kolibrići’, Nova budućnost association, the initiative Entire Croatia is helping – for the seriously ill girl Kiara, Dobra volja humanitarian association and the Association for Autism Bjelovar.

Corporate volunteering – “Pay It Forward”

Corporate volunteering is more than a one-off action at bank level and the Bank has organised it for years. It is a process of volunteering and providing help by setting aside the employees’ time to help others. For the employer to further encourage employees, the possibility of volunteering during working hours has been offered for the third consecutive year all employees interested in being included. They can use one working day per year for this during their working hours, as individuals or in groups.

Through various projects throughout the year, employees helped and acted together to do good. This may have included socialising with elderly or sick retirement home users, improving homes for children, caring for the poor and the homeless, cleaning the environment, etc.

Corporate volunteering (continued)

Last year was marked by several individual and one group volunteer actions due to the already mentioned reasons caused by the epidemic. Volunteer work was performed:

- providing aid to earthquake-stricken areas
- on the classification of donations for earthquake victims
- within the scope of Business Skills Academy (workshop on sales skills and human resources management)
- cleaning Mljet coves (ecological actions)
- Centre for Culture of Dialogue Rijeka (development assistance to children from families of a lower socio-economic status)

Volunteer actions were carried out in such a way that employees were informed about the possibilities of volunteering via intranet or the employees themselves found such opportunities in their surroundings, in their environment, and sometimes the Human Resource Department provided assistance in organising volunteering which then proposed the place for volunteering and assisted in taking care of everything that is necessary to do the volunteer work. The number of days of volunteer work in 2021 was 15 days during working hours, which is somewhat more compared to the previous year.

Since 2015, EBC has been a signatory to the Charter Recognising Competences Acquired by Volunteering, and since last year the Bank has been a signatory to the Corporate Volunteering Charter. The best acknowledgement of the efforts and engagement of Erste volunteers is the many thanks from various institutions and associations received in 2021.

Happy Hour

Employees of the Bank, but also of other affiliated companies, regularly, on an annual level, organise campaigns of selling cakes and other sweet or salty products (made by themselves) and thus raise funds that they donate to associations or individuals in difficult life circumstances. Unfortunately, due to epidemiological circumstances, campaigns of this type have been suspended for two years but they will again be organised as soon as the circumstances allow it.

Environment

In the last few years, the subject of environmental protection has become increasingly important for the sustainable development and viability of companies and people. As climate change has started to affect almost every country on every continent and change the way people live and work, the battle for environmental protection has become a global preoccupation. The importance of these topics is evidenced by numerous summits, agreements and initiatives of the world's leading powers in order to reach the best possible solution through unification. The last such conference was held in Glasgow at the end of 2021 (COP 26 UN Climate Change Conference) where the stepping up of efforts made so far were confirmed. Also, several new initiatives were adopted, such as the initiative on increasing funds for developing countries to fight climate change and launching a global commitment to reduce methane emissions.

By deciding to finance environmentally neutral companies and to pursue "green" and sustainable projects, banks and other financial institutions have an indirect impact on the environment and its conservation. Within its internal processes, EBC strives to reach environmentally friendly solutions of the highest quality, e.g. when renovating branches and when communicating with customers, the aim is to achieve as high environmental standards as possible. The immediate impact on the environment has been determined through energy consumption and paper consumption.

Managing environmental impacts

Erste Bank Croatia has an established Environmental Policy, which defines environmental objectives that aim to contribute to reducing energy and water consumption and minimising environmental pollution, thereby contributing to the community in which the bank operates. Some of the goals EBC is committed to are:

- Protection of natural resources through their responsible use, systematic increase of energy efficiency and compliance with all applicable legal regulations
- Use of recycled paper and continuous reduction of waste paper
- Introduction of a waste sorting system and promotion of responsible waste management among employees
- Reduction of harmful emissions through the selection and use of electricity from renewable energy sources

To achieve its goals, EBC has implemented an environmental management system that complies with the requirements of ISO 14001:2015. The Environmental Management System according to the ISO 14001 standard was extended (recertified) at the end of 2020 and integrated with the Energy Management System according to the ISO 50001 standard, which would enable more advanced monitoring of electricity consumption and its rational use in the coming years, which should ultimately result in savings. The next recertification is planned for 2023.

The active involvement of our employees is crucial for achieving these goals. In this regard, EBC educates all employees on rational energy saving and paper consumption, on proper waste separation, and educate systematically on the ISO 14001:2015 standard, with all its elements and goals. From the beginning of 2020, education on environmental protection and rational use of energy is mandatory for all new employees, and a total of 310 newly employed persons completed it in 2021.

As was the case in the previous years, a yearly external audit was performed by a licenced certification company in 2021 too, to check the functioning of the Environmental Management System according to the international standard ISO 14001: 2015. The Bank has completed all necessary activities to extend the ISO 14001:2015 certificate for another year. Some of EBC's affiliates (Erste Card Club, Erste Leasing and Erste Bank A.D. Podgorica) have done the same successfully.

The Strategic Environmental Objectives for the period 2022 to the end of 2024 were also set last year. Compared to the reference year 2019, they are:
_ Maintain electricity consumption at +/- 3% (2019: 10,98 GWh, 2.489 FTE)
_ Maintain heat consumption at +/- 3% (2019: 4,09 GWh)
_ Reduce CO2 emission 0-3% (2019: 2.251 tCo2/ FTE)

Managing environmental impacts (continued)

Based on the Strategic Objectives, the Operational Objectives for 2021- 2022 were defined:

_ implement internal educational campaigns on environmental protection, electricity and thermal energy savings for new employees
_ further installation of UV protective foils on the premises
_ production of 64000 kWh (± 5 %) of green energy from photovoltaic cells installed on the office building in Zagreb

Energy

People need energy for everyday life – both of an individual and the entire economy. In that process, energy needs to be transferred from the initial location to the end-user, which of course causes pollution. Monitoring electricity consumption allows for better management of this segment of sustainable business. Erste Bank Croatia has several initiatives in the area of electricity savings.

When designing branch offices and other business premises, all aspects of environmentally friendly and sustainable business are taken into account, using software and technical solutions to optimise energy consumption, regularly maintain equipment to increase its durability and reduce waste, use energy-saving light bulbs and energy-saving LED panels for advertisements, etc.

EBC wants to encourage its clients to think about energy efficiency and, consequently, to act in that direction. Thus, the Bank has designed and offered several products for the purpose of financing energy efficiency, the so-called eco loans, both for citizens and companies, which encourage the use of ecological forms of energy, the use of renewable energy sources, energy efficiency, etc., thus further promoting the development of sustainability and energy efficiency in society. For example, for clients who buy, build or renovate properties with A+, A, B, or C energy the Bank grades a lower interest rate than for regular housing loans. In addition, the Bank cooperates with local and international financial institutions to offer more favourable financing conditions for projects in the private and public sectors, including energy efficiency and renewable energy projects. With more favourable financing conditions, the Bank wants to further stimulate investments in segments that contribute to increasing environmental awareness, efficiency and sustainability.

As part of Erste Group, EBC is committed to providing financial services in the energy sector because it believes that electricity supply is the key element for economic and social development, especially when it comes to Central and Eastern Europe. At the same time, this part shows the need for reasonable management of environmental and social impacts and better management of environmental risks. This is precisely why guidelines have been provided in the corporate finance section of Erste Group for the purpose of applying the sustainability principle and regulating the participation of Erste Group in this industry.

In 2021, the installation of sun protection foils was continued. Apart from providing much better working conditions for employees in summer, they reduce electricity consumption for air conditioning and lighting. Last year, foils were installed on glazed surfaces at in Buzet branch office.

The Bank constantly controls and works to reduce energy consumption, and in order to do this more efficiently, it requires the education of all employees and users of the premises, which was carried out throughout the year. Education on environmental protection and rational use of energy became mandatory for all new employees as of 2020.

The coronavirus pandemic brought savings and a decline in energy consumption in some areas of operation, primarily in fuel consumption for official vehicles (down by 40,6% in 2020 compared to 2019, while in 2021, this decrease was slightly lower - 35,17%). However, due to the need for continuous fresh air ventilation, this drop in consumption is significantly lower than it would have been had it not been for a pandemic. Indeed, research by the Erste Group shows that ventilation is the largest consumer of electricity, during winter as well as a lot of energy is consumed to heat the fresh air. Also, significant reductions and savings in electricity are not planned for the forthcoming period due to the modernisation of branches with zones that continuously operate and use electricity. Electricity consumption increased by 6.68% compared to the reference year 2019.

Energy (continued)

However, significant progress in the use of renewable energy sources was made in June of 2021, when a photovoltaic cell was placed on the roof of Erste's office building at Ivana Lučića Street in Zagreb, with the aim of producing 64,000 kWh of green energy.

Emissions

In 2021, EBC continued to use electricity that is 100% from renewable sources, which means that in addition to maintaining low CO2 emission levels, EBC contributed i.e. participated in the realisation of national energy efficiency projects through the ZelEN fund.

CO2 emissions at the Erste Group level are monitored in all member states and are calculated using the data on energy consumption and consumption of photocopier paper. EBC continues to record a constant decline in CO2 emissions:

Table 9: CO2 emission

	2019	2020	2021
tCO2e	2,251	1,936	1,916

In 2021, EBC procured and put into service five electric cars, and due to the lack of a network of e-charging stations in Croatia, the Bank installed its own network of rapid and slow charging stations near office buildings in Zagreb, Rijeka and Bjelovar. A total of 10 charging stations have been installed so far and three more are planned for 2022.

Waste separation and reduction of unselected municipal waste

It has been identified that the Bank generates the most waste in the area of paper consumption. Therefore, ecological, recycled printing paper is used throughout Erste Bank in Croatia, and this is planned in the future too. Also, due to the environmental aspect, but also easier use, the Bank's clients are encouraged to do business online as much as possible. Therefore, digital submission of applications for the Bank's products is provided, and the General Terms and Conditions are available in the branches on tablets instead of on paper. Posters in the branches have largely been replaced by digital displays wherever possible. Instead of the classic notices sent by mail to the home address, EBC strives to send emails to clients as much as possible, and individual campaigns for switching from paper monthly statements to electronic ones are often carried out. Also, centrally operated digital filing folders are used to save paper.

The Bank constantly controls and works to reduce the consumption of photocopier paper at the Bank level, and trainings have been organised for this purpose. The reduction in consumption was significant already in 2019 (23%), and in 2020, this reduction is even more pronounced amounting to nearly 40%. This decline continued in 2021, but it should be noted that, over the last two years, the coronavirus pandemic and specific working conditions have also had a major impact on reducing consumption.

Table 10: Consumption of photocopier paper

	2019	2020	2021
Ream/FTE	14.35	11.18	10.77

In order to reduce the negative impact on the environment in the future and further reduce the amount of unselected municipal waste, the use of linen towels was introduced in late 2018 instead of paper towels for wiping hands in sanitary facilities. As part of this, employee education was organised. By using linen towels, EBC reduced the amount of unselected municipal waste by 70-90% every year compared to previous years when paper towels were used for the same purpose. However, with the emergence of the coronavirus pandemic in 2020, the use of paper towels (mainly for disinfecting work surfaces) increased again, and this trend continued in 2021.

Waste separation and reduction of unselected municipal waste (continued)

Also, in 2018, tanks for the selective separation of waste were installed throughout the entire Croatian business network, and as a result, prescribed procedures were introduced and employee education was carried out. In addition to paper, plastic, metal and glass being separated, storage tanks for waste batteries have been set up in office buildings in Zagreb, Rijeka and Bjelovar. It should be noted that the Republic of Croatia has unfortunately not yet introduced a system for collection of disposed waste based on volume or weight, therefore data on quantities of certain types of disposed waste are not available. However, special categories of waste disposal are registered, so there is data that EBC in 2021 disposed of 8,8 tonnes of bulk waste and 40 tonnes of electronic waste.

Other activities

A few years ago, the Bank started the "Project for PET", which was launched at the initiative of the employees. The project was continued in 2021. This is a project of organised collection of plastic packaging in Erste business centres in Zagreb and Bjelovar, which is carried out in cooperation with the Association for the Promotion of Inclusion. Bank employees collect plastic bottles from beverages, which are taken by users of the association for recycling, and the raised funds are used for financing a part of their needs. By organising the collection of plastic packaging, EBC shows double support for the community in which it operates. In addition to recycling large quantities of plastic bottles, which is in itself an environmentally beneficial act, the Bank helps launch an entrepreneurial activity for the socially disadvantaged population – people with intellectual disabilities who are otherwise hard-to-employ. In addition, the reduction of the amount of plastic waste in the form of PET water bottles at the level of the entire bank network is achieved by introducing a device for the production of drinking water obtained from the water supply network by reverse osmosis. The drinking water available to employees is thus not in plastic packaging. Additionally, buying more glass cups in kitchenettes aims to reduce the use of disposable plastic water cups, at least as far as the Bank's employees are concerned.

Also, in the office buildings in Zagreb, Rijeka and Bjelovar, Erste Bank Croatia organised an ecological-humanitarian project of collecting plastic caps from PET bottles for the need of raising funds for the Association of Leukaemia and Lymphoma Patients of the Republic of Croatia. This type of campaign has also been carried out in the Erste Card Club.

When designing branch offices according to the new concept of a service model, which, in addition to the mode of operation, includes the visual identity of EBC, green walls made of living plants are standardly installed, which have proved to be extremely beneficial for the pleasant work of our employees and their coexistence with nature. In addition to the office building at Ivana Lučića Street in Zagreb, green walls have been installed in branches in Pula, Makarska and Zagreb (Masarykova Street and Avenija Dubrovnik), Zadar, Šibenik, Vinkovci, Viškovo, Buzet and one branch office in Split. In addition, indoor plants contribute to a natural increase of humidity in heated spaces during winter, thus reducing the need for energy products for artificial humidification.

The Bank is also a member of the non-governmental organisation Croatia Green Building Council and actively participates in discussions and projects regarding green construction projects, discussions on new trends in the area, etc.

EU Taxonomy related disclosures

The Taxonomy Regulation is a regulation that establishes a classification system that helps determine whether an economic activity is environmentally sustainable, while sustainable economic activity is defined as contributing to one or more of the six defined environmental objectives - climate change mitigation, climate change adaptation, sustainable use and water protection and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. In addition, the EU Taxonomy Regulation requires that none of the above environmental objectives be significantly damaged and implemented in accordance with minimum safeguards (according to the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, International Organization (ILO) for Fundamental Principles and Rights at Work and the International Charter of Human Rights).

Institutions participating in financial markets from 2022 are required to publish information related to the first two objectives, with taxonomically acceptable economic activities further defined by Commission Delegated Regulation (EU) 2021/2178.

EU Taxonomy related disclosures (continued)

In order to meet the requirements of the new regulations, Erste Bank Croatia withdrew the data from the portfolio review conducted by the international Erste Group for all members of the Group.

For items 1-4 the denominator, total assets, is defined as on-balance sheet exposures covering the following accounting categories of financial assets, including loans and advances, debt securities, equity holdings and repossessed collaterals ((a) financial assets at amortized cost, (b) financial assets at fair value through other comprehensive income, (c) investments in subsidiaries, (d) joint ventures and associates, (e) financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss, (f) real estate collaterals obtained by credit institutions by taking possession in exchange for the cancellation of debts).

For items 5-7 the denominator, total Green Asset Ratio assets, has the same scope as the total assets for items 1-4 excluding exposures to sovereigns, central banks, and trading book. The nominators have an even more narrow scope including only financial corporations, non-financial corporates subject to NFRD disclosure obligations, households, and local governments.

Taxonomy-eligible and non-eligible activities are defined according to the European Industrial Classification System (NACE), which serves as a basis for defining economic activities in taxonomy.

In the future, the criteria used to calculate the items listed in Table 11 are likely to change because there is currently no common market standard for interpreting all provisions of the Taxonomy Regulation.

Table 11: EU Taxonomy Disclosures

Central governments, central banks, supranational issuers and derivates/ Total assets	44.70%
SME's and NFCs not subject to NFRD disclosure obligations/ Total assets	16.80%
Trading portfolio/ Total assets	0.20%
On-demand interbank loans/ Total assets	0.50%
Taxonomy - eligible activities/ Total GAR assets	25.10%
Taxonomy non - eligible activities/ Total GAR assets	45.70%
Estimated green assets/ Total GAR assets	3.00%

Suppliers

Suppliers' responsibility

Erste Group sees its suppliers as partners in developing the sustainability of its operations. When selecting suppliers, Erste Group takes into account sustainability and corporate social responsibility, and chooses companies that do business in line with international standards that include social and environmental impacts.

Erste Group Procurement (EGP) is Erste Group's company specialised in procurement. Its main objective is to ensure a transparent and fair procurement and supply and such contracts. Meeting the needs of Erste Group for national and foreign goods and services, delivered in time and in accordance with quality requirements, under the best possible conditions, is the key element.

The suppliers of Erste Group are required to meet the stipulated standards in the fields of business ethics, environmental protection and human rights.

In the fulfilment of the contractual obligations, Erste Group expects the following from the suppliers of materials, equipment and services chosen as partners: respect of national and local laws and regulations, the fulfilment of all legal obligations regarding the health and safety of their employees and contractors, strict compliance with environmental regulations, compliance with and application of the fundamental principles of corporate social responsibility, protection of basic human and workers' rights, environmental protection, the promotion of health and safety, and decisive fight against corruption.

These principles are also expressed in the Supplier Code of Conduct, which is publicly available on the Erste Group Procurement website.

Erste Group Procurement carries the "CIPS Corporate Ethics Mark". This certificate is provided by the Chartered Institute of Procurement and Supply (CIPS). This certificate is issued to companies that have been dedicated to high standards of ethics and have proven that their employees are trained and do business in line with them. Employees are fully certified with respect to ethical conduct while 95% of suppliers, chosen by EGP, have undergone ethical certification in accordance with EGP standards.

In the process of selecting suppliers at a strategic and operational level, sustainability is also taken into consideration. Along with an initial assessment, suppliers' operations are regularly reviewed, covering the most important or most vulnerable suppliers. The audit questionnaire refers to areas such as the existence of an environmental management system, participation in the Carbon Disclosure Project (CDS), the existence of a written environmental policy, methods of measuring CO_2 emissions, the existence of environmental targets, information on fines and penalties for violations of environmental regulations and description of the suppliers' supply chain.

In the case of the procurement of goods, the audit questionnaire is supplemented with questions on potentially hazardous chemicals, product recycling possibilities, end-of-life recovery, and *Energy Star* or similar standards.

Erste Group, including Erste Bank Croatia, is pleased to point out that no actual or potential negative environmental impacts have been detected in the supply chain of Erste Group and no contract with a supplier has been terminated as a result of significant actual or potential negative environmental impact.

When selecting suppliers, Erste Group also addresses social aspects, and the questionnaire covers questions such as child labour, elimination of all forms of forced labour, elimination of discrimination in the employment process, freedom of association and the right to collective negotiation, reasonable working hours and fair compensation, health care, work safety, job restructuring, salary, appropriate working conditions, and other important social criteria in the supply chain.

Erste Group also encourages social responsibility through the selection of suppliers and the type of goods and services it uses, including promotional marketing materials. Among other things, Erste Group often chooses products that have an ecological certificate or are the final product of a socially responsible project involving marginalised groups of the society. For example, at the end of each year, Erste Group orders holiday cards from SOS Children's Village Croatia, and not from commercial suppliers, and thus encourages responsible business within the society and the community.

GRI Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2021	Comment/Reason for ommission
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	4	Erste&Steiermärkische Bank d.d.
GRI 102	General Disclosures	102-2	Activities, brand, products, and services	81	Annual report: General information
GRI 102	General Disclosures	102-3	Location of headquarters	81	Rijeka, Jadranski trg 3a, Republic of Croatia
GRI 102	General Disclosures	102-4	Location of operations	81	General information
GRI 102	General Disclosures	102-5	Ownership	81	General information
GRI 102	General Disclosures	102-6	Markets served	81	General information
GRI 102	General Disclosures	102-8	Information on employees	34	Non-financial report: Employees
GRI 102	General Disclosures	102-9	Suppliers	56	Non-financial report: Suppliers
GRI 102	General Disclosures	102-10	Changes in the supply chain	56	No significant changes
GRI 102	General Disclosures	102-11	Precautionary principles	28	Non-financial report: Code of Conduct of the ESB Group; Statement of Purpose
GRI 102	General Disclosures	102-12	External initiatives	28, 51	Non-financial report: Customers, Environment
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	Croatian Banking Association, Croatian Chamber of Economy
2. Strategy					
GRI 102	General Disclosures	102-14	Report of the Chairman of the Management Board	5	Report of the Chairman of the Management Board
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	27	Non-financial report: Materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	37	Non-financial report: Employees
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	61	General information: Supervisory Board, Management Board
5. Stakeholders					
GRI 102	General Disclosures	102-40	List of stakeholders	27	Non-financiral report: Materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	34	Non-financial report: Employees
GRI 102	General Disclosures	102-42	Identifying stakeholders	27	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	27 at seq.	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns	27	Non-financial report: Materiality analysis
6. Reporting practice					
GRI 102	General Disclosures	102-46	Defining report content	24	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	27	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-49	Changes in reporting	27	No changes were made.
GRI 102	General Disclosures	102-50	Reporting period	4	From 1.1.2021. to 31.12.2021.
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report for the year ending on 31.12.2021.
GRI 102	General Disclosures	102-52	Reporting cycle	4	Annual
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI standards	25	EBC's non-financial report was prepared in accordance with the requirements of the Global Reporting Initiative (GRI standard: core option)
GRI 102	General Disclosures	102-55	GRI content index	57	Non-financial report

GRI Content Index (continued)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2021	Comment/Reason for ommission
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topics	25	Non-financial report: Materiality analysis
Material and additional topics					
Material topic: Anti-corruption (GRI 205 Anti-corruption 2016)					
GRI 205	Anti-corruption	205-3	Confirmed incidents of corruption	28	Non-financial report: Anti-corruption There were no confirmed incidents of corruption in 2021
Material topic: Emissions (GRI 305 Emissions 2016)					
GRI 305	Emissions	305-5	Reduction of emissions	53	Non-financial report: Emissions
Material topic: Responsible criteria in the supply chain (GRI 308 Negative environmental impacts in the supply chain and actions taken 2016)					
GRI 308	Negative impact on the environment by the suppliers	308-2	Negative impact on the environment by the suppliers	56	Non-financial report: Suppliers
Material topic: Health and work-life balance (GRI 401 Employment 2016)					
GRI 401	Employees	401-1	New employees	43	Non-financial report: Employees New employees: 152; Fluctuaction: 233
GRI 401	Employees	401-3	Parental leave	36	Non-financial report: Employees
Material topic: Health and work-life balance (GRI 403 Occupational health and safety 2018)					
GRI 403	Occupational health and safety	403-1	Occupational health and safety management system	43, 41	Non-financial report: Employees
GRI 403	Occupational health and safety	403-3	Occupational health services	43, 41	Non-financial report: Employees
GRI 403	Occupational health and safety	403-5	Prevention and mitigation of occupational	43, 41	Non-financial report: Employees
GRI 403	Occupational health and safety	403-7	Worker training on occupational health and safety impacts directly linked by business relationships	43, 41	Non-financial report: Employees
Material topic: Training and education (GRI 404 Training and education 2016)					
GRI 404	Training and education	404-1	Number of hours of training	39	Non-financial report: Emloyees
Material topic: Diversity and equality (GRI 405 Diverity and Equal Opportunity 2016)					
GRI 405	Diversity of managerial bodies and employees	405-1	Structure of managerial bodies and employees	34	Non-financial report: Employees
Material topic: Diversity and equality (GRI 406 Non-discrimination 2016)					
GRI 406	Anti-discrimination	406-1	Total number of incidents of discrimination	n.a.	Non-financial report: Employees There were no incidents recorded during 2021
Material topic: Customer satisfaction					
Information on customer satisfaction				32	Non-financial report: Clients
Material topic: Financial literacy					
Information on activities implemented in the area of raising financial literacy				45-50	Non-financial report: Society

Corporate Governance Statement

The Bank pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole.

In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) to its business, adopted by the Management Board and the Supervisory Board of the Bank. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

In its operations the Bank particularly complies with the following corporate governance principles:

- Transparency in operations;
- Protection of shareholders' rights;
- Clearly defined authorizations and responsibilities of the Bank’s bodies;
- Cooperation between the Management Board and the Supervisory Board, transparent relationships among all the Bank's bodies, employees, shareholders, Bank's clients and the public as a whole;
- Efficient internal control system.

The Bank has ensured the integrity of the accounting system and financial reporting, adequate internal control systems, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws, as well as through fair business practice. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

In subsidiaries of the Bank in which is necessary due to the activities performed by the company, size, importance and regulatory framework, the compliance function, risk control function and internal audit division is also established.

The main features of the Bank’s and subsidiaries’ internal control system are reflected in independent bearers of control functions responsible for the identification, assessment and risk management, including Risk control and Compliance function, while Internal Audit Division overseas the overall operations of the Bank and the Group to assess the adequacy of the established system of internal controls.

Corporate Governance Statement (continued)

Code of Conduct of the Bank regulates the basic rules of business conduct of employees of the Bank in order to preserve and further expand the reputation of the banking sector and the Bank in society by promoting the idea of professionalism, responsibility and transparency of business activities.

Furthermore, the Bank has adopted Diversity policy in the year 2017. In accordance with Group principles, this policy outlines framework and guidelines and provides general principles and direction on integrating diversity management into corporate culture and business.

The main risk regarding the financial reporting relates to errors or deliberate actions (frauds) that lead to a distortion of the Bank's true and fair view of the Bank's financial position and performance. This is the case whenever the data provided in the financial statements are essentially inconsistent or inaccurate and may individually or in aggregate influence the decision making by the users of the financial statements. Such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

Complex requirements for the recognition and measurement of financial instruments, in particular fair value estimates for which reliable market values are not available, estimates for the recognition of value adjustments and provisions, as well as the difficult business environment, present a risk of significant financial reporting errors.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares issued in dematerialized form, registered with the Central Depositary and Clearing Company under »RIBA-R-A« mark.

The nominal value of each share amounts to HRK 100.00 and entitles the holder to one vote at the Bank's General Meeting.

In order to improve the Bank’s coordination and simplify the shareholder structure, indirect shareholders of the Bank, companies Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG have decided to become direct shareholders, by taking over the Bank's shares from the company ESB Holding GmbH in the same percentage in which they had shares in the capital of stated company.

In accordance with the aforementioned, until December 30, 2015, all shares of the Bank held the company ESB Holding GmbH, and as of December 30, 2015, all shares of the Bank hold companies Erste Group Bank AG (59.02%) and Steiermärkische Bank und Sparkassen AG (40.98%).

General Meeting decides on all matters as required by relevant regulations and the Articles of Association of the Bank. General Meeting shall be called by the Management Board or by the Supervisory Board not less than once a year and when the interests of the Bank require it. The Bank's General Meeting decides on amendments to the Articles of Association by the majority of votes representing at least three quarters of the equity capital represented at the General Meeting.

On May 31, 2021 the Bank held its regular General Meeting at which a Decision on Profit Distribution for the year 2020 was made. Net profit for year 2020 amounts HRK 389,525,002.02 and it was distributed in the retained earnings in the amount of HRK 389,525,002.02.

Corporate Governance Statement (continued)

PricewaterhouseCoopers d.o.o. was appointed as the Bank's auditor for 2021, and the decisions on granting discharge to the Management Board and Supervisory Board members and on suitability of the Supervisory Board members were adopted, as well. Furthermore, Decision on Amendments of the Suitability Policy was made.

Besides regular General Meeting in 2021, the Bank held three extraordinary General Meetings as well.

At extraordinary General Meeting held on November 2, 2021, Decision on distribution of retained earnings, and Decisions on suitability assessment of the candidates for the Supervisory Board and Decision on election of the Supervisory Board's members were made. By the Decision on distribution of retained earnings, the amount of HRK 161,009,979.00 was distributed as the dividend to the Bank's shareholders. The dividend is determined in amount of 9.48 % of the nominal share value, which makes HRK 9.48 per share.

The payment of dividend to the shareholders Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG was effectuated as of November 29, 2021.

The members of the Management Board represent the Bank and operate the Bank's business on its own responsibility according to the Companies Act, the Credit Institutions Act and internal acts of the Bank. The Management Board has 6 (six) members. One member of the Management Board is appointed as the president of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

Members of the Management Board are:
_ Christoph Schoefboeck, President of the Management Board,
_ Borislav Centner, Member of the Management Board,
_ Martin Hornig, Member of the Management Board,
_ Zdenko Matak, Member of the Management Board,
_ Krešimir Barić, Member of the Management Board
_ Hannes Frotzbacher, Member of the Management Board.

The Supervisory Board shall supervise the management of the Bank. The Supervisory Board has seven (7) members. The members of the Supervisory Board are elected by the General Meeting.

Members of the Supervisory Board are:
_ Willibald Cernko, President of the Supervisory Board,
_ Georg Bucher, Deputy President of the Supervisory Board,
_ Ingo Bleier, Member of the Supervisory Board,
_ Judit Ágnes Havasi, Member of the Supervisory Board,
_ Walburga Seidl, Member of the Supervisory Board,
_ Nikolai Leo de Arnoldi, Member of the Supervisory Board,
_ Roland Klimesch, Member of the Supervisory Board.

Corporate Governance Statement (continued)

The Supervisory Board conducts its activities at the Meetings. Summoning and holding meetings and process of making decisions and authorizations are prescribed by the Rules of procedure of the Supervisory Board. Supervisory Board has five (5) committees as follows: Audit Committee, Credit Committee, Remuneration Committee, Nomination Committee and Risk Committee which are established with the aim of making competent and independent judgements on all issues placed in their jurisdiction by the Bank's internal acts and the relevant regulations. Committee members are appointed from the members of the Supervisory Board.

Audit Committee:
_ Georg Bucher, President
_ Judit Ágnes Havasi, Member
_ Roland Klimesch, Member

Remuneration Committee:
_ Willibald Cernko, President
_ Judit Ágnes Havasi, Member
_ Georg Bucher, Member

Nomination Committee:
_ Willibald Cernko, President
_ Judit Ágnes Havasi, Member
_ Georg Bucher, Member

Credit Committee:
_ Willibald Cernko President
_ Nikolai Leo de Arnoldi, Member
_ Walburga Seidl, Member
_ Roland Klimesch, Member

Risk Committee:
_ Walburga Seidl, President
_ Willibald Cernko, Member
_ Nikolai Leo de Arnoldi, Member

Financial Statements for the year ended 31 December 2021

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that separate and consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in the EU, which give a true and fair view of the financial position, results of operations and cash flow of Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates (the Group) for that period as well as of Erste&Steiermärkische Bank d.d. (the Bank), separately.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:
- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the Group and the Bank will continue in business.

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

Moreover, in accordance with the Accounting Law, the Management Board is obliged to prepare an Annual Report comprising the financial statements, the Management Report and the Corporate Governance Statement. The Management Report and the Corporate Governance Statement were prepared in line with the requirements of Articles 21, 22 and 24 of the Accounting Law. Also, the Management Board is responsible for the submission of its Annual report, which includes annual separate and consolidated financial statements, to the Supervisory Board for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.
In accordance with Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of the single electronic reporting format ("ESEF Regulation"), the Management Board is obliged to prepare and publish separate and consolidated Annual Report in XHTML format and to mark the annual financial statements prepared in accordance with IFRS in XHTML format using XBRL codes to meet Article 462 requirements of the Capital Market Act.

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

Christoph Schoefboeck
President

Martin Hornig
Member

Zdenko Matak
Member

Krešimir Barić
Member

Borislav Centner
Member

Hannes Frotzbacher
Member

Erste&Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

25 March 2022

Independent Auditor's Report

To the Shareholders of Erste&Steiermärkische Bank d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of ErsteSteiermärkische Bank d.d. (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2021, and the Bank's and the Group's separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 17 March 2022.

What we have audited

The Bank's and the Group's separate and consolidated financial statements comprise:

- the separate and consolidated statements of profit or loss for the year ended 31 December 2021;
- the separate and consolidated statements of other comprehensive income for the year ended 31 December 2021;
- the separate and consolidated statements of financial position as of 31 December 2021;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flow for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

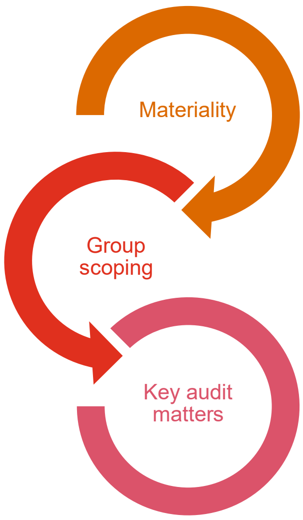
We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that the non-audit services that we have provided to the Bank and the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 41 to the separate and consolidated financial statements.

Our audit approach

Overview



- Overall Bank materiality: HRK 45 million, which represents 5% of pre-tax result for the period adjusted for non-recurring items in the amount of HRK 126 million, which represent the amount of provision release for court proceedings which is not expected to recur in the subsequent years.
- Overall Group materiality: HRK 59 million, which represents 5% of pre-tax result for the period adjusted for non-recurring items in the amount of HRK 126 million, which represent the amount of provision release for court proceedings which is not expected to recur in the subsequent years.

- We conducted audit work for 4 reporting units in 2 countries.
- Our audit scope addressed 99% of the Group's interest income and 99% of the Group's absolute value of the underlying pre-tax result.

- Estimate of credit loss allowances for loans and advances to customers
- Provisions for litigations related to loans originally issued in, or indexed to Swiss Franc

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

Materiality

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

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

Overall Bank and Group materiality	The Bank: HRK 45 million The Group: HRK 59 million
How we determined it	The Bank and the Group: 5% of pre-tax result for the period adjusted for non-recurring items in the amount of HRK 126 million, which represent the amount of provision release for court proceedings which is not expected to recur in the subsequent years.
Rationale for the materiality benchmark applied	We chose pre-tax result for the period, because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by users and shareholders and is a generally acceptable benchmark. We adjusted it for non-recurring items in order to achieve comparability with the materiality of the Bank and the Group.

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.

Key audit matter	How our audit addressed the key audit matter
Estimate of credit loss allowances for loans and advances to customers (the Bank and the Group) Refer to section *Impairment of financial instruments under IFRS 9* in note *Financial instruments - Significant accounting policies*, section *Loans and advances at amortised costs to customers* in note 14 *Financial assets at amortized costs* and note 27.4 *Credit risk* to the financial statements for detailed information on the expected credit loss (“ECL”) for loans and advances to customers. As at 31 December 2021, the Bank and Group had credit loss allowances for loans and advances at amortised cost to customers of HRK 2.6 billion and HRK 2.9 billion, respectively. We focused on this area during the audit due to the significance of the amounts involved for the separate and consolidated financial statements and also because the management makes complex and subjective judgements over both the timing and size of the expected credit losses, which makes it a complex area of accounting.	Our audit approach was the following: • We updated our understanding of the ECL calculation methodology applied by the Bank and the Group, obtained the understanding of model adjustments made as a result of the management’s assessment of the Covid 19 impact and assessed their compliance with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. • We evaluated significant control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans and ongoing monitoring. • We evaluated control activities and tested key controls in the area of critical data including the customer ratings and collateral valuation, and also assessed the independent model validation framework, validation results and overall model governance for compliance with IFRS 9. • We tested on a sample basis the critical data in the source systems and their input in the ECL calculation engine (probability of default, loss given default and customers ratings).

Key audit matter	How our audit addressed the key audit matter
For loans with low credit risk credit loss allowances are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred, credit loss allowances are measured as lifetime expected credit losses. For defaulted loans that are considered not to be individually significant, expected credit losses are collectively assessed as well. In these cases, the ECL is determined by using the key assumptions being the probability of an account falling into arrears and subsequently defaulting ("PD"), definition of significant increase in credit risk, exposure at the moment of default ("EAD") and the estimated losses from defaulted loans ("LGD"). Statistical models are used for determination of the key assumptions including different future macroeconomic scenarios. For defaulted loans considered to be significant at customer level, ECL is determined on an individual basis. In these cases, ECL is determined by using key assumptions being the scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable). A part of moratoria for the loans repayment to the customers approved by the Bank and the Group in 2020 due to the Covid 19 pandemic, were still existing in 2021 which, together with the impact that Covid 19 pandemic on the general market and macroeconomic forecasts have significantly influenced the key assumptions made by the management in estimating the ECL.	• We assessed the process of incorporating the forward-looking information in the ECL estimates. • We assessed the validation and monitoring reports to confirm the correctness of staging, ECL calculation, model performance and data quality checks. • We tested, on a sample basis, the correct stage allocation according to the relevant policies on additional model adjustments due to the Covid 19 pandemic (including the staging of exposures under the moratoria). • We verified the reconciliation of the output of the ECL calculation engine with the accounting records. • We tested, on a sample bases, the adequacy of individual loan loss allowances, assessing the forecasted scenarios and the estimated expected cash flows. • We have assessed the disclosures related to credit loss allowances for loans and advances to customers in the financial statements, including those that address the impact of Covid 19 pandemic, with respect to their adequacy and compliance with the IFRS requirements.

Key audit matter	How our audit addressed the key audit matter
Provisions for litigations related to loans originally issued in or indexed to Swiss Franc (the Bank and the Group) As at 31 December 2021, the Bank and the Group recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs ("CHF"). Note 34 Provisions c) Sundry provisions, to the financial statements provide information related to these provisions for litigation claims. The provision for litigation cases relates to loans that have not been converted to HRK and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements. Provisions for litigation claims represent the management's best estimate over both the timing and size of the probable outflow of economic resources required to settle the obligation at the reporting date. We focused on this area because there are considerable judgements and estimates in applying the IFRS to estimating both timing and size of the outflows of economic resources required to settle the Bank's obligations resulting from these litigation claims, given their inherent uncertainty.	Our audit approach was the following: • We obtained understanding of the process and methodology applied to estimating the provisions for litigations related to loans originally granted in CHF. • We obtained a detailed overview of the litigation claims against the Bank for loans denominated in CHF and the analytics of the provisions recognised for these cases. We reconciled this information to the information provided in the financial statements and to the information received from external law firms. • As a part of our testing of the management's estimate, we obtained an independent overview and opinion pertaining to the Bank's litigation cases from the external law firms and we assessed the amount of provisions for reasonableness by comparing provisions made with the external law firms' opinion and available public information in order to challenge the key assumptions made by management. • We have tested the calculation of the provisions for litigation claims for mathematical accuracy.

How we tailored our Group audit scope

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

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, Corporate Governance Statement and Non–financial Report included in the Annual Report, but does not include 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.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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, Corporate Governance Statement and Non–financial Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act and whether the Non–financial Report is prepared in accordance with the requirements of Article 21a of the Accounting Act.

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act; and
- the Non–financial Report was prepared in accordance with the requirements of Article 21a of the Accounting Act.

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

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

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union 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 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.

Those charged with governance are 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 scepticism 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 independent 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 independent 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.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank and the Group on 12 June 2017. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 31 May 2021, representing a total period of uninterrupted engagement appointment of 5 years.

Forms in accordance with Regulatory Requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18, 122/20, 119/21), "Decision"), the Management Board of the Bank prepared the forms presented in the Appendix 1 – Forms according to local requirements (the "Forms"), which are entitled the Income statement and the Statement of other comprehensive income of the Bank and Group for the year ended 31 December 2021, Statements of financial position of the Bank and the Group as at 31 December 2021, the Statements of changes in equity of the Bank and the Group and the Cash flow statements of the Bank and the Group for the year then ended, together with information to reconcile the Forms to the Bank's and the Group's financial statements, disclosed in Appendix 2 – Differences between financial statements according to IFRS and local requirements. The Bank's management is responsible for the preparation of the Forms and information on reconciliation. They do not represent an integral part of the audited financial statements, but contain information required by the Decision. The financial information in the Forms is derived from the Bank's and the Group's audited financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 75 to 241, adjusted for the purposes of the Decision.

Report on compliance of the format of the separate and consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF") Regulation

We have been engaged based on our agreement by the management of the Bank to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the separate and consolidated financial statements included in the attached electronic file 549300A2F46GR0UOM390-2021-12-31-en, (hereinafter: the financial statements) of the Bank and the Group for the year ended 31 December 2021 (the "Presentation of the Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Financial Statements has been prepared by the management of the Bank to comply with the requirements of Article 462 paragraph 5 of the Capital Market Act (Official Gazette, No. 65/18, 17/20 and 83/21) (the "Capital Market Act") and with the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation").

Those regulations require that:

- the financial statements included in the separate and consolidated Annual Report, have been prepared in the XHTML format;
- the data included in the separate and consolidated financial statements required by the ESEF Regulation and Capital Market Act have been marked up and all the markups meet the following requirements:
    - the XBRL markup language has been used,
    - the core taxonomy elements listed in the ESEF Regulation with the closest accounting meaning have been used, unless an extension taxonomy element was created in accordance with Annex IV of the ESEF Regulation,
    - the markups comply with the common rules on markups under the ESEF Regulation.

The requirements described above determine the basis for application of the Presentation of the Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the management and those charged with governance

The Bank's management is responsible for the Presentation of the Financial Statements in accordance with the ESEF Regulation and the Capital Market Act. In addition, the Bank's management is responsible for maintaining an internal control system that reasonably ensures the preparation of the Presentation of the Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation and the Capital Market Act, whether due to fraud or error.

Those charged with governance are responsible for overseeing the process of preparing the Presentation of the Financial Statements in the ESEF format as part of the financial reporting process.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion, based on the audit evidence obtained, whether the Presentation of the Financial Statements complies, in all material respects, with the requirements of the ESEF Regulation and the Capital Market Act. We conducted a reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information. This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Financial Statements is prepared, in all material respects, in accordance with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect a material misstatement (significant non-compliance with the requirements).

Procedures performed

The nature, timing and extent of the procedures selected are matters for the professional judgment of the auditor.

As part of the selected procedures, we performed in particular the following procedures:

- read the requirements of the ESEF Regulation and the Capital Market Act;
- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Financial Statements, including the

preparation of the XHTML format and marking up the separate and consolidated financial statements;

- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the separate and consolidated financial statements using the XBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the Presentation of the Financial Statements for the year ended 31 December 2021 included in the above stated attached electronic file complies, in all material respects, with the ESEF Regulation and the Capital Market Act.

Our conclusion is not an opinion on the true and fair presentation of the financial statements presented in electronic format. In addition, we do not express any form of assurance on the other information disclosed in the documents in the ESEF format.

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

PricewaterhouseCoopers d.o.o.

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

This version of our 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 of our report takes precedence over this translation.

I. Statement of Comprehensive Income for the Year ended 31 December 2021

Statement of Profit or Loss

in HRK million		GROUP		BANK	
	Notes	2020	2021	2020	2021
Net interest income	2	2,025	2,003	1,617	1,612
Interest income		2,152	2,107	1,785	1,766
Other similar income		161	155	59	55
Interest expense		(224)	(204)	(166)	(157)
Other similar expenses		(64)	(55)	(61)	(52)
Net fee and commission income	3	694	809	433	519
Fee and commission income		925	1,068	597	713
Fee and commission expenses		(231)	(259)	(164)	(194)
Dividend income	4	1	1	11	11
Net trading and fair value result	5	211	221	211	218
Gains/losses from financial instruments measured at fair value through profit or loss	6	(14)	4	(18)	6
Net result from equity method investments		8	9	-	-
Rental income from investment properties & other operating leases	7	86	66	5	4
Personnel expenses	8	(718)	(779)	(522)	(581)
Other administrative expenses	8	(648)	(611)	(487)	(457)
Depreciation and amortisation	8	(251)	(250)	(131)	(143)
Gains/losses from derecognition of financial assets measured at amortised cost	9	(1)	-	(1)	-
Impairment result from financial instruments	10	(785)	(167)	(627)	(144)
Other operating result	11	(126)	(9)	(107)	(13)
Other operating income		20	201	19	197
Other operating expenses		(146)	(210)	(126)	(210)
Pre-tax result for the period		**482**	**1,297**	**384**	**1,032**
Income tax	12	(10)	(228)	6	(185)
Net result for the period		**472**	**1,069**	**390**	**847**
Net result attributable to non-controlling interests		12	19	-	-
Net result attributable to owners of the parent		**460**	**1,050**	**-**	**-**

Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the net profit for the period attributable to ordinary shareholders after deducting preference dividends, if any. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

in HRK million	GROUP	
	2020	2021
Net result for the period	472	1,069
Net result attributable to owners of the parent	460	1,050
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	**27.09**	**61.82**

I. Statement of Comprehensive Income for the Year ended 31 December 2021 (continued)

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2020	2021	2020	2021
Net result for the period	**472**	**1,069**	**390**	**847**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	-	-	-	-
Fair value reserve of equity instruments	2	9	1	7
Own credit risk reserve	-	-	-	-
Income taxes relating to items that may not be reclassified	-	(1)	-	(1)
Total	**2**	**8**	**1**	**6**
Items that may be reclassified to profit or loss				
Fair value reserve of debt instruments	32	(153)	50	(135)
Gain/(loss) during the period	(5)	(162)	13	(144)
Reclassification adjustments	-	-	-	-
Credit loss allowances	37	9	37	9
Currency translation	8	(2)	-	-
Gain/(loss) during the period	8	(2)	-	-
Reclassification adjustments	-	-	-	-
Income taxes relating to items that may be reclassified	(7)	26	(9)	24
Gain/(loss) during the period	(7)	26	(9)	24
Reclassification adjustments	-	-	-	-
Total	**33**	**(129)**	**41**	**(111)**
Total other comprehensive income	**35**	**(121)**	**42**	**(105)**
Total comprehensive income	**507**	**948**	**432**	**742**
Total comprehensive income attributable to non-controlling interests	12	19	-	-
Total comprehensive income attributable to owners of the parent	**495**	**929**	**-**	**-**

II. Statement of Financial Position as at 31 December 2021

in HRK million		GROUP		BANK	
	Notes	31 December 2020	31 December 2021	31 December 2020	31 December 2021
Assets					
Cash and cash balances	13	8,673	14,530	7,947	13,518
Financial assets – held for trading		162	145	162	145
Derivatives	18	118	70	118	70
Other trading assets	19	44	75	44	75
Non-trading financial assets at fair value through profit or loss		188	75	69	70
Equity instruments	20	36	10	36	10
Debt securities	20	152	65	33	60
Financial assets at fair value through other comprehensive income		11,278	11,947	10,704	11,448
Pledged as collateral	25	85	6	-	6
Equity instruments	21	130	4	114	4
Debt securities	21	11,148	11,943	10,590	11,444
Financial assets at amortised cost		56,154	59,328	51,322	54,719
Pledged as collateral	25	816	-	816	-
Debt securities	14	2,361	4,935	2,180	4,674
Loans and advances to banks	14	4,041	4,406	3,968	4,322
Loans and advances to customers	14	49,752	49,987	45,174	45,723
Finance lease receivables	31	2,460	2,546	-	-
Property and equipment	28	1,236	1,179	810	792
Investment properties	28	5	3	2	-
Intangible assets	29	390	327	135	135
Investments in subsidiaries	37	-	-	891	805
Investments in associates	38	59	62	38	38
Current tax assets	12	123	-	112	-
Deferred tax assets	12	197	207	110	132
Assets held for sale	42	-	336	-	3
Trade and other receivables	16	1,143	1,270	596	692
Other assets	30	401	324	318	251
Total assets		**82,469**	**92,279**	**73,216**	**82,748**
Liabilities and equity					
Financial liabilities – held for trading		106	56	106	56
Derivatives	18	106	56	106	56
Financial liabilities measured at amortised cost		70,636	79,559	63,302	72,378
Deposits from banks	17	9,048	6,533	5,209	3,242
Deposits from customers	17	60,128	68,268	57,253	64,927
Debt securities issued	17	677	4,010	677	4,010
Other financial liabilities	17	783	748	163	199
Lease liabilities	31	102	99	102	100
Provisions	34	582	409	545	384
Current tax liabilities	12	6	92	-	74
Deferred tax liabilities	12	4	2	-	-
Liabilities associated with assets held for sale	42	-	261	-	-
Other liabilities	33	649	631	424	438
Total liabilities		**72,085**	**81,109**	**64,479**	**73,430**
Subscribed capital		1,698	1,698	1,698	1,698
Capital reserves and share premium		1,886	1,886	1,886	1,886
Retained earnings		6,231	7,231	4,811	5,592
Other reserves		371	139	342	142
Equity attributable to owners of the parent		10,186	10,954	8,737	9,318
Equity attributable to non-controlling interests	37	198	216	-	-
Total equity	**36**	**10,384**	**11,170**	**8,737**	**9,318**
Total liabilities and equity		**82,469**	**92,279**	**73,216**	**82,748**

III. Statement of Changes in Equity

GROUP

	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Currency translation reserve	Remeasurement of defined benefit plans	Income tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2021	**1,698**	**1,886**	**6,231**	**452**	**1**	**-**	**(82)**	**10,186**	**198**	**10,384**
Dividends paid	-	-	(161)	-	-	-	-	(161)	(1)	(162)
Reclassification from other comprehensive income to retained earnings	-	-	111	(137)	-	-	26	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**1,050**	**(144)**	**(2)**	**-**	**25**	**929**	**19**	**948**
Net result for the period	-	-	1,050	-	-	-	-	1,050	19	1,069
Other comprehensive income	-	-	-	(144)	(2)	-	25	(121)	-	(121)
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	(144)	-	-	25	(119)	-	(119)
Change in currency translation reserve	-	-	-	-	(2)	-	-	(2)	-	(2)
As of 31 December 2021	**1,698**	**1,886**	**7,231**	**171**	**(1)**	**-**	**(31)**	**10,954**	**216**	**11,170**
As of 1 January 2020	**1,698**	**1,886**	**5,756**	**432**	**(7)**	**-**	**(75)**	**9,690**	**188**	**9,878**
Dividends paid	-	-	-	-	-	-	-	-	(2)	(2)
Reclassification from other comprehensive income to retained earnings	-	-	14	(14)	-	-	-	-	-	-
Other changes	-	-	1	-	-	-	-	1	-	1
Total comprehensive income	**-**	**-**	**460**	**34**	**8**	**-**	**(7)**	**495**	**12**	**507**
Net result for the period	-	-	460	-	-	-	-	460	12	472
Other comprehensive income	-	-	-	34	8	-	(7)	35	-	35
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	34	-	-	(7)	27	-	27
Change in currency translation reserve	-	-	-	-	8	-	-	8	-	8
As of 31 December 2020	**1,698**	**1,886**	**6,231**	**452**	**1**	**-**	**(82)**	**10,186**	**198**	**10,384**

III. Statement of Changes in Equity (continued)

BANK

	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Currency translation reserve	Remeasurement of defined benefit plans	Income tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2021	**1,698**	**1,886**	**4,811**	**418**	**-**	**2**	**(78)**	**8,737**	**-**	**8,737**
Dividends paid	-	-	(161)	-	-	-	-	(161)	-	(161)
Reclassification from other comprehensive income to retained earnings	-	-	95	(119)	-	-	24	(0)	-	(0)
Other changes	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**847**	**(128)**	**-**	**-**	**23**	**742**	**-**	**742**
Net result for the period	-	-	847	-	-	-	-	847	-	847
Other comprehensive income	-	-	-	(128)	-	-	23	(105)	-	(105)
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	(128)	-	-	23	(105)	-	(105)
As of 31 December 2021	**1,698**	**1,886**	**5,592**	**171**	**-**	**2**	**(31)**	**9,318**	**-**	**9,318**
As of 1 January 2020	**1,698**	**1,886**	**4,485**	**381**	**-**	**2**	**(69)**	**8,383**	**-**	**8,383**
Dividends paid	-	-	-	-	-	-	-	-	-	-
Reclassification from other comprehensive income to retained earnings	-	-	14	(14)	-	-	-	-	-	-
Other changes (Note: Scope of consolidation)	-	-	(78)	-	-	-	-	(78)	-	(78)
Total comprehensive income	**-**	**-**	**390**	**51**	**-**	**-**	**(9)**	**432**	**-**	**432**
Net result for the period	-	-	390	-	-	-	-	390	-	390
Other comprehensive income	-	-	-	51	-	-	(9)	42	-	42
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	51	-	-	(9)	42	-	42
As of 31 December 2020	**1,698**	**1,886**	**4,811**	**418**	**-**	**2**	**(78)**	**8,737**	**-**	**8,737**

IV. Statement of Cash Flow for the year ended 31 December 2021

in HRK million	GROUP		BANK	
	2020	2021	2020	2021
Net result for the period	**472**	**1,069**	**390**	**847**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	253	299	132	192
Allocation to and release of provisions (including risk provisions)	861	95	712	106
Gains/(losses) from the sale of assets	8	3	(1)	(3)
Income tax expense/(income)	10	228	(6)	184
Other adjustments	(2)	7	-	6
Changes in assets and liabilities from operating activities after adjustment for non-cash components				
Financial assets – held for trading	142	(31)	142	(31)
Non-trading financial assets at fair value through profit or loss				
Equity instruments	1	159	1	142
Debt securities	45	87	18	(27)
Financial assets at fair value through other comprehensive income: debt securities	(751)	(948)	(802)	(1,005)
Financial assets at amortised cost				
Debt securities	(719)	(2,572)	(716)	(2,495)
Loans and advances to banks	323	(163)	297	(150)
Loans and advances to customers	(4,714)	(661)	(4,519)	(611)
Finance lease receivables	(7)	(91)	-	-
Derivatives	(9)	(2)	(9)	(2)
Other assets from operating activities	(89)	25	(100)	13
Financial liabilities measured at amortised cost				
Deposits from banks	(759)	(2,373)	(763)	(1,967)
Deposits from customers	8,803	8,140	8,799	7,673
Debt securities issued	5	3,333	5	3,333
Other financial liabilities	(88)	43	24	37
Other liabilities from operating activities	(46)	(232)	(75)	(215)
Cash flow from operating activities	**3,739**	**6,415**	**3,529**	**6,027**
Proceeds from disposal				
Financial assets at fair value through other comprehensive income: equity instruments	-	1	-	1
Property and equipment, intangible assets and investment properties	73	39	3	3
Acquisition of				
Financial assets at fair value through other comprehensive income: equity instruments	-	-	-	-
Property and equipment, intangible assets and investment properties	(225)	(212)	(115)	(112)
Merger of subsidiary (net of cash and cash equivalents acquired) (Note: Scope of consolduation)	-	-	222	-
Investments in associates	-	-	-	-
Disposal of subsidiaries	5	-	-	-
Investment in subsidiaries	-	-	-	38
Cash flow from investing activities	**(147)**	**(172)**	**110**	**(70)**
Dividends paid to equity holders of the parent	-	(161)	-	(161)
Dividends paid to non-controlling interests	(2)	(1)	-	-
Lease liabilities	(19)	(19)	(26)	(20)
Cash flow from financing activities	**(21)**	**(181)**	**(26)**	**(181)**
Cash and cash equivalents at beginning of period	**4,897**	**8,468**	**4,129**	**7,742**
Cash flow from operating activities	3,739	6,415	3,529	6,027
Cash flow from investing activities	(147)	(172)	110	(70)
Cash flow from financing activities	(21)	(181)	(26)	(181)
Cash and cash equivalents at end of period1)	**8,468**	**14,530**	**7,742**	**13,518**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)	**1,668**	**1,919**	**1,422**	**1,650**
Payments for income tax	(161)	(32)	(122)	(18)
Interest received	2,143	2,224	1,793	1,879
Dividends received	-	1	4	11
Interest paid	(314)	(274)	(253)	(222)

1) Cash and cash equivalents are equal to cash in hand and equivalents held with central banks and placements with banks with original maturity up to 3 months (Note 13).

V. Notes to the Financial Statements

A. GENERAL INFORMATION

HISTORY AND INCORPORATION

Erste&Steiermärkische Bank d.d. (the Bank) was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.
The Bank is a holding company for the Erste Bank Croatia Group (the Group) which has operations in the Republic of Croatia, Republic of Montenegro, Republic of Slovenia and in Republic of North Macedonia until disposal of subsidiary in 2020.
Direct parent and ultimate controlling entity of Erste&Steiermärkische Bank d.d. is Erste Group Bank AG.

These financial statements comprise both the separate financial statements of the Bank and the consolidated financial statements of the Group.

PRINCIPAL ACTIVITIES OF THE BANK

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

_ accepting deposits from the clients and deposits placement,
_ granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
_ treasury operations in the interbank market,
_ trust management and investment banking services,
_ performing domestic and international payments,
_ providing banking services through an extensive branch network in the Republic of Croatia.

SUPERVISORY BOARD

Willibald Cernko	President
Georg Bucher	Deputy President
Ingo Bleier	Member
Roland Klimesch	Member from 07 May 2020
Judit Ágnes Havasi	Member
Walburga Seidl	Member
Nikolai Leo de Arnoldi	Member

MANAGEMENT BOARD

The Bank is represented jointly by two members of the Management Board or by one member of the Management Board together with the procurator.

Christoph Schoefboeck	President
Borislav Centner	Member
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member from 01 January 2020
Hannes Frotzbacher	Member from 01 February 2020

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares. All shares of the Bank hold companies Erste Group Bank AG (10,023,326 shares or 59.02%) and Steiermärkische Bank und Sparkassen AG (6,960,849 shares or 40.98%).

DEFINITION OF THE CONSOLIDATED GROUP

The Bank is a parent company of the banking group (the Group) which includes the following subsidiaries and associates:

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	38	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank AD Podgorica, Montenegro	38	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o.	38	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste Card d.o.o. Slovenia	38	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenia
Erste&Steiermärkische S-Leasing d.o.o.	38	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	38	100%	Real estate management and lease	Ivana Lučića 2A, Zagreb
Erste Group IT HR d.o.o.	38	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
Erste d.o.o.	39	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Part of the consolidated group in 2020 was Erste Factoring d.o.o. and Diners Club International Mak d.o.o.e.l.

Merger and disposal in 2020

Merger under common control

On June 19, 2020, pursuant to the Decision of the Commercial Court in Rijeka and in accordance with the Agreement of merger as of March 5,2020, company Erste Factoring d.o.o. was merged to the Bank.
Net profit of the company Erste Factoring d.o.o. realized in the period from January 1 to June 18, 2020 has been recorded in the amount of HRK 8,136,878.54 as at date of merger and was transferred to retained earnings of the Bank.

Disposal

On December 7, 2020 company Diners Club International Mak d.o.o.e.l. was sold in amount of HRK 5 million.

Information on merger and disposal is disclosed in Note Scope of consolidation.

Disposal group held for sale in 2021

Disposal group held for sale

In October 2021 Erste Card Club d.o.o. signed an agreement for the sale of Erste Card d.o.o., Slovenia to Banka Sparkasse d.d., Slovenia, a related party. As at 31 December 2021, the sales is not completed.
Information on disposal group held for sale is disclosed in Note 42 Assets held for sale and liabilities associated with assets held for sale.

Significant accounting policies

BASIS OF PREPARATION

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the IASB and adopted by the European Union (EU).
In accordance with the applicable measurement models prescribed or permitted under IFRS, the consolidated financial statements have been prepared on a cost basis, except for financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at fair value through profit or loss.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

Except for regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU, the Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

Except as otherwise indicated, the amounts in the financial statements are stated in millions of local currency – Croatian Kuna (HRK) which is the Bank functional and the Bank and Group presentation currency.

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported income, expenses and other comprehensive income for the reporting period. These estimates are based on the information available at the statement of financial position date and actual amounts may differ from those estimates.
The Bank maintains its books of accounts in accordance with the regulations of the statutory accounting requirements for banks in Croatia.
The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries.

COVID-19 disclosures

In the financial statements of the Group and the Bank, considerations and significant impacts of the COVID-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

The chapter 'c) Accounting and measurement methods' discusses the accounting and measurement methods used for private moratoria and payment holidays, public guarantees and goodwill impairment testing including significant effects of those topics on the consolidated financial statements in 2021.

The chapter 'd) Significant accounting judgements, assumptions and estimates' contains information about the key sources of estimation uncertainty in the light of the COVID-19 pandemic.

Note 27 Credit risk contains a separate sub-chapter 'COVID-19' which explains the considerations of the pandemic on the ECL measurement, sensitivity analyses and information on credit exposures subject to certain COVID-19 measures.

Accounting and measurement methods

Foreign currency translation

The financial statements are presented in kuna, which is the presentation currency of the Group and functional currency of the Bank. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

i.Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded in kuna at the functional currency exchange rate effective as of the date of the transaction.
Subsequently, monetary items denominated in foreign currencies are translated at the functional currency exchange rates as of the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency using the exchange rate at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using the exchange rates as of the dates of the initial transactions and they do not give rise to exchange differences.

Exchange differences arising on translation into functional currency, are recognised in the statement of profit or loss for the period, under the line item ‘Net trading and fair value result’ except for exchange differences arising on translation of financial assets denominated in foreign currencies and measured at fair value through other comprehensive income and translation of foreign operations as explained below.

For debt instruments that represent monetary items and are measured at fair value through other comprehensive income, foreign currency translation differences are recognized in the statement of profit or loss, if related to the amortised cost components of the instrument, and in other comprehensive income, if related to fair value components of the instrument.
For non-monetary items that are measured at fair value through other comprehensive income, exchange differences are recognised in other comprehensive income. Conversely, exchange differences are recognised in the statement of profit or loss if a non-monetary item is measured at fair value through profit or loss.

ii.Translation of the statements of Group companies

The assets and liabilities of foreign operations (foreign subsidiaries) are translated into kuna, the Group’s presentation currency, at the rate of exchange as of the statement of financial position date (closing rate). Their consolidated statement of profit or loss and consolidated statement of comprehensive income are translated at the average exchange rate of the respective reporting period calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries and fair value adjustments to the carrying amounts of assets and liabilities on acquisition are treated as asset and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income under the line item ‘Currency translation reserve’ of the statement of comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the statement of profit or loss under the line item ’Other operating result’.

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the Group and the Bank’s statement of financial position at the reporting dates were as follows:

31 December 2021	EUR 1=HRK 7.517174
31 December 2020	EUR 1=HRK 7.536898

Accounting and measurement methods (continued)

Accounting treatment of issues related to COVID-19

i. Non-legislative moratoria and payment holidays

In light of the pervasive existence of Covid-19, also in 2021 a variety of measures have been taken by the Croatian government aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures included non-legislative moratoria on repayment of loans, overdraft facilities and mortgages.

The non-legislative moratoria in general relate to customers which were performing and to their exposures existing before the outbreak of COVID-19 pandemic. The applicable customers were not automatically subject to the moratorium, they had to apply for the payment reliefs. The range of payment deferral periods in the Group was originally enacted between 3 to 12 months. However, prolongations of the moratoria have been provided afterwards. In Croatia, the moratorium was effective until 31 March 2021. Nevertheless, in many cases an economic loss incurred and modification losses were recognised from accounting perspective.

Moratoria and granted payment holidays modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. Accordingly, the accounting policies disclosed in chapter “Financial instruments – Significant accounting policies”, part “Derecognition of financial instruments including treatment of contractual modifications” apply.

The majority of moratoria and payment holidays applied in the Group did not lead to derecognition. In particular, this is because the moratoria and payment holidays are typically below one year and, in most cases, the contractual interest continues to accrue during the suspension phase. Thus, the present value effect of the modification is less than 10%, which is below the threshold defined for significant modifications leading to derecognition.

In the statement of profit or loss, the modification gain or loss is presented in the line item ‘Interest income’ under ‘Net interest income’ if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line ‘Impairment result from financial instruments’.

Details regarding the assessment of significant increase in credit risk and other considerations on the expected credit loss estimation in the light of the COVID-19 outbreak are described in Note 27 Credit risk.

In 2021, out of the total modification losses incurred in the amount of HRK 1 million, the Group did not incur significant modification losses out of Covid-19 related non-legislative moratoria. In 2020, the Group incurred modification losses in total amount of HRK 30 million, thereof, the vast majority related to contractual modifications arising from COVID-19-related moratoria. Out of the total modification losses, an amount of HRK 21 million was presented in the statement of profit or loss in line item ‘Net interest income’, while the remaining amount of HRK 9 million was presented in line item ‘Impairment result from financial instruments’.

ii. Public guarantees

In their efforts to mitigate the economic effects of Covid-19, Croatian government and other public institutions in the Group’s region were providing public guarantees on banks’ exposures. The relevant accounting policy for financial guarantees is disclosed in note 34 Provisions, part Financial guarantees. Financial guarantees received in the context of Covid-19 measures typically related to new credit facilities and are therefore considered as integral. Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

iii. Impairment of financial instruments

The impairment loss in the line item ‘Impairment result from financial instruments’ was affected by a release of impairment which is directly attributable to changes in macro environment and management actions to identify mostly affected portfolios due to Covid-19 outbreak. Details regarding the effects of COVID-19 on the expected credit loss estimation are described in Note 27 Credit risk.

Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. The estimates and underlying assumptions are regularly evaluated. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed in:

_Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 27 Credit risk)
_Control of subsidiaries (Note 37 Subsidiaries)
_Sundry provisions (Note 34 Provisions)

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect the Group's financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and potential goodwill and other non-financial assets impairment assessments. All effects that could be reasonable estimated were recognised by 2021 end. The Group will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2020. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2021, and have been endorsed by the EU:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2
Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021

Application of the above mentioned amendments in 2021 did not have a significant impact on the Group's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2: Following the development regarding the replacement of IBOR rates with alternative reference rates, the Bank has established an initiative led by the ALM department to manage the transition for its contracts that could be affected and continuously monitors the Benchmark Reform status. As disclosed previously, the Group did not apply the amendments early because no replacement of benchmark rates occurred.
During the 2021 the activities were focused on CHF LIBOR and financial assets related as the LIBOR rates cessation became effective as of 31 December 2021 and for the Group, only CHF LIBOR cessation has an impact. As there are no significant volumes of financial assets linked to CHF LIBOR, this impact is not considered material. Application of these amendments did not have an impact on the Group's financial statements for the year 2021.

In accordance with the Regulation (EU) 2021/1847 on the designation of a statutory replacement for certain settings of CHF LIBOR adopted by the European Commission on 14 October 2021 the Group intends to complete the transition to SARON rates in the first half of the year 2022.

Application of amended and new IFRS/IAS (continued)

Regarding the accounting treatment of the interest rates replacement a practical expedient has been provided by the Interest Rate Benchmark Reform – Phase 2 amendments of IFRS 9 which became mandatory for the financial year 2021. It requires that changes in the rates resulting from the interest rate benchmark reform are reflected by adjusting the effective interest rate of the instruments with no immediate gain or loss recognized. This expedient is only applicable to changes that are required by interest rate benchmark reform, and only if:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (including a fixed spread necessary to compensate for the basis difference between the CHF LIBOR rates and the SARON rates).

The CHF LIBOR interest rate replacement for SARON rate in the Group business qualifies for application of this practical expedient.

Regarding other IBOR-linked financial instruments, the Group considers that EURIBOR interest rates which have been reformed and are EU Benchmark Regulation compliant are not currently affected.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following amendments to standards are endorsed by the EU:
Annual Improvements to IFRSs 2018-2020 Cycle
IFRS 17: Insurance contracts
Amendments to IAS 1: Disclosure of Accounting Policies
Amendments to IAS 8: Definition of Accounting Estimates

Following standards, amendments and interpretations have not yet been endorsed by the EU until 23 February 2022:
Amendments to IAS 1: Classification of liabilities as current or non-current
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Annual Improvements to IFRSs 2018 2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Group is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Group will estimate the effect on its financial statements when this has been clarified.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on the Group's financial statements. However, revisions in the disclosures of the accounting policies may be required.

Application of amended and new IFRS/IAS (continued)

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

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In March 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

PERFORMANCE / RETURN

1. Segment reporting

The Bank segment reporting comprises four operating segments reflecting Bank management structure.

Retail segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with-in defined annual turnover thresholds. Large Corporates (LC) are clients/client groups with specific annual turnover thresholds (lying above SME thresholds) which are operating on domestic market but also on core markets/extended core markets of Erste Group. Commercial Real Estate (CRE) covers for example investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector. In addition, the majority of municipalities are also segmented as Public Sector clients.

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment includes all asset/liability management functions as well as the local corporate center which comprise all non-core banking business activities such as internal service providers and reconciliation items to local entity results.

Group Markets segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

1. Segment reporting (continued)

in HRK million	Retail 2020	Retail 2021	Corporates 2020	Corporates 2021	Group Markets 2020	Group Markets 2021	ALM & LCC 2020	ALM & LCC 2021	GROUP 2020	GROUP 2021
Net interest income	1,313	1,303	748	772	3	3	(39)	(75)	2,025	2,003
Net fee and commission income	449	517	233	263	32	33	(20)	(4)	694	809
Dividend income	-	-	-	-	-	-	1	1	1	1
Net trading and fair value result	82	104	60	71	54	59	15	(13)	211	221
Gains/losses from financial instruments at FVPL	-	-	(27)	7	-	-	13	(3)	(14)	4
Net result from equity method investments	8	9	-	-	-	-	-	-	8	9
Rental income from investment properties & other operating leases	29	24	54	38	-	3	3	1	86	66
General administrative expenses	(1,144)	(1,180)	(402)	(398)	(40)	(42)	(31)	(20)	(1,617)	(1,640)
Gains/losses from derecognition of financial assets at AC	-	-	(1)	-	-	-	-	-	(1)	-
Impairment result from financial instruments	(422)	(106)	(321)	(72)	(5)	9	(37)	2	(785)	(167)
Other operating result	(12)	(3)	(15)	122	(1)	(1)	(98)	(127)	(126)	(9)
Pre-tax result for the period	**303**	**668**	**329**	**803**	**43**	**64**	**(193)**	**(238)**	**482**	**1,297**
Income tax	(51)	(114)	(56)	(143)	(8)	(12)	105	41	(10)	(228)
Net result for the period	**252**	**554**	**273**	**660**	**35**	**52**	**(88)**	**(197)**	**472**	**1,069**
Net result attributable to non-controlling interests	**-**	**-**	**-**	**19**	**-**	**-**	**12**	**-**	**12**	**19**
Net result attributable to owners of the parent	**252**	**554**	**273**	**641**	**35**	**52**	**(100)**	**(197)**	**460**	**1,050**
Operating income	1,881	1,957	1,068	1,151	89	98	(27)	(93)	3,011	3,113
Operating expenses	(1,144)	(1,180)	(402)	(398)	(40)	(42)	(31)	(20)	(1,617)	(1,640)
Risk-weighted assets (credit risk, eop)	13,540	13,726	21,914	22,633	341	673	12,429	16,800	48,224	53,832
Average allocated capital	2,016	2,085	2,643	2,841	51	76	1,995	3,059	6,705	8,061
Cost/income ratio	61%	60%	38%	35%	45%	43%	(115)%	(22)%	54%	53%
Return on allocated capital	13%	27%	10%	23%	69%	68%	(5)%	(6)%	7%	13%
Total assets (eop)	26,813	26,892	30,434	30,657	539	535	24,683	34,195	82,469	92,279
Total liabilities excluding equity (eop)	39,425	43,610	18,867	21,613	1,635	1,406	12,158	14,480	72,085	81,109
Impairments	**(424)**	**(107)**	**(324)**	**(72)**	**(5)**	**9**	**(57)**	**(84)**	**(810)**	**(254)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(416)	(97)	(222)	78	(5)	9	(37)	3	(680)	(7)
Net impairment loss on commitments and guarantees given	(6)	(10)	(99)	(150)	-	-	-	-	(105)	(160)
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	(48)	-	(48)
Net impairment on other non-financial assets	(2)	-	(3)	-	-	-	(20)	(39)	(25)	(39)

Measurement

The profit and loss statement of the segment report is based on the measures to the Erste Group management board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report for Erste Group, is based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated statement of accounting.
Capital consumption per segment is regularly reviewed by the management of Erste Group to assess the performance of the segments. The average allocated equity is determined by the credit risk, market risk, operational risk and business strategic risk. According to the regular internal reporting to Erste Group management board, total assets and total liabilities as well as risk weighted assets and allocated equity are disclosed per segment. For measuring and assessing the profitability of segments, Erste Group also use the return on allocated equity defined as a net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition, the cost/income ratio is calculated for each segment as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties and other lease).

The Group is not disclosing information about revenue from external customers for Group's products and services (or groups of similar products and services), based on IFRS 8.32, as the information is not available and the cost of to develop it would be excessive.

The Group doesn't have a single external customer whose revenues from transactions amount to 10% or more of the Group's revenues.

Return on asset ratio (ROA) in the Group was 1.2% on 31 December 2021 (2020: 0.6%) and in the Bank 1.1% (2020: 0.6%).

2. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments - Significant accounting policies', part 'Measurement methods for financial instruments'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments - significant accounting policies', part 'Measurement methods for financial instruments' .

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, negative interest on financial assets, lease liabilities and net defined liabilities (net interest cost on severance payment, pension and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, on debt securities in all measurement categories of financial assets, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued, interest paid on lease liabilities and other financial liabilities in all measurement categories of financial liabilities. Net interest income also includes interest on derivative financial instruments.

Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

2. Net interest income (continued)

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Interest income				
Financial assets at AC	1,994	1,957	1,649	1,636
Financial assets at FVOCI	158	150	136	130
Other similar income				
Non-trading financial assets at fair value through profit or loss	-	1	-	1
Financial assets – held for trading	56	47	57	46
Other assets	103	100	-	-
Interest income from negative interest rates	2	7	2	8
Interest and other similar income	**2,313**	**2,262**	**1,844**	**1,821**
Interest expenses				
Financial liabilities measured at amortised cost	(224)	(204)	(166)	(157)
Other similar expense				
Financial liabilities – held for trading	(53)	(43)	(53)	(43)
Other liabilities	(3)	(2)	(2)	(2)
Interest expense from negative interest rates	(8)	(10)	(6)	(7)
Interest and other similar expense	**(288)**	**(259)**	**(227)**	**(209)**
Net interest income	**2,025**	**2,003**	**1,617**	**1,612**

An amount of HRK 61 million for the Group and HRK 53 million for the Bank (2020: HRK 66 million for the Group and HRK 60 million for the Bank) relating to impaired financial assets is included in interest income. In addition, modification losses of financial instruments allocated to Stage 1 in the amount of HRK 0.3 million for the Group and less than 0.1 million for the Bank for the Bank (2020: HRK 21 milion for the Group and for the Bank) is reported in line item ‘Interest income - Financial assets at AC’

3. Net fee and commission income

Group earns fee and commission income from a diverse range of services that it provides to its customers.
Fee and commission income is accounted for in accordance with IFRS 15.

Group recognises revenue when it transfers control over a service to a customer. Fee and commission income is measured based on the consideration specified in the contract with a customer. The determination of the timing and amount of income recognition follows the five-step model of IFRS 15.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction-based fees like withdrawal fees.

A contract with a customer that results in the recognition of a financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.
Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

in HRK million	GROUP				BANK			
	2020		2021		2020		2021	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Securities	19	(2)	11	(2)	19	(2)	11	(2)
Own issues	13	-	6	-	13	-	6	-
Transfer orders	6	-	5	-	6	-	5	-
Securities Other	-	(2)	-	(2)	-	(2)	-	(2)
Asset management	23	(1)	24	(1)	23	(1)	24	(1)
Custody	9	(2)	11	(2)	8	(2)	9	(2)
Payment services	765	(199)	891	(226)	472	(152)	574	(181)
Card business	432	(164)	528	(186)	150	(125)	227	(151)
Other	333	(35)	363	(40)	322	(27)	347	(30)
Customer resources distributed but not managed	28	(1)	35	(1)	28	(1)	34	(1)
Collective investment	-	(1)	-	(1)	-	(1)	-	(1)
Insurance products	24	-	29	-	23	-	28	-
Building society brokerage	3	-	5	-	4	-	5	-
Foreign exchange transactions	1	-	1	-	1	-	1	-
Lending business	55	(6)	75	(8)	41	(6)	53	(7)
Loan commitments given, Loan commitments received	12	(5)	24	(7)	5	(4)	7	(6)
Guarantees given, guarantees received	37	(1)	43	(1)	34	(2)	43	(1)
Other lending business	6	-	8	-	2	-	3	-
Other	26	(20)	21	(19)	6	-	8	-
Total fee and commission income and expenses	**925**	**(231)**	**1,068**	**(259)**	**597**	**(164)**	**713**	**(194)**
Net fee and commission income	**694**	**-**	**809**	**-**	**433**	**-**	**519**	**-**

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.
Fees relating to financial assets and financial liabilities not measured at FVTPL for 2021 amount HRK 926 million for the Group and HRK 591 million for the Bank in income (2020: HRK 810 million for the Group and HRK 494 million for the Bank) and HRK 247 million for the Group and HRK 183 milion for the Bank in expense (2020: HRK 221 million for the Group and HRK 155 million for the Bank).

4. Dividend income

Dividend income is recognised when the right to receive the payment is established.
This line item includes dividend from shares and other equity investments in all measurement categories.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Financial assets at cost	-	-	10	10
Financial assets at FVOCI	1	-	1	-
Non-trading financial assets at fair value through profit or loss	-	1	-	1
Dividend income	**1**	**1**	**11**	**11**

5. Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, 'Net trading result' includes foreign exchange gains and losses on monetary assets and liabilities.

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, b) Accounting and measurement methods, i. Foreign currency translations, ii. Transactions and balances in foreign currency.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Net trading result				
Securities and derivatives trading	21	1	20	1
Foreign exchange transactions	190	220	191	217
Net trading and fair value result	**211**	**221**	**211**	**218**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Notes 27.

6. Gains/losses from financial assets and liabilities measured at fair value through profit or loss, net

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on derecognition, are reported under this line item.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Result from measurement/sale of financial assets mandatorily at FVPL	(14)	4	(18)	6
Gains/losses from financial instruments measured at fair value through profit or loss	**(14)**	**4**	**(18)**	**6**

7. Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Investment properties	2	-	-	-
Other operating leases	84	66	5	4
Rental income from investment properties & other operating leases	**86**	**66**	**5**	**4**

More detailed information about assets under operating lease is provided in Note 28 Property, equipment and Investment property.

8. General administrative expenses

Personnel expenses
Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions. They also include service cost for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Other personnel expenses include remuneration of management and employees related to IFRS 2 Employee share program. More detailed information is provided in Note 40 Share based payment.

Other administrative expenses
Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants.

Depreciation and amortisation
This line item comprises depreciation of property and equipment, depreciation of investment property, depreciation of right of use assets and amortisation of intangible assets.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Personnel expenses	**(718)**	**(779)**	**(522)**	**(581)**
Wages and salaries	(629)	(669)	(457)	(498)
Compulsory social security	(86)	(100)	(62)	(75)
Long-term employee provisions	(3)	(2)	(3)	(2)
Other personnel expenses	-	(8)	-	(6)
Other administrative expenses	**(648)**	**(611)**	**(487)**	**(457)**
Deposit insurance contribution	(93)	(14)	(79)	(5)
IT expenses	(203)	(228)	(193)	(221)
Expenses for office space	(82)	(85)	(67)	(69)
Office operating expenses	(137)	(128)	(60)	(60)
Advertising/marketing	(74)	(79)	(49)	(50)
Legal and consulting costs	(47)	(65)	(30)	(43)
Sundry administrative expenses	(12)	(12)	(9)	(9)
Depreciation and amortisation	**(251)**	**(250)**	**(131)**	**(143)**
Software and other intangible assets	(58)	(70)	(31)	(39)
Owner occupied real estate	(43)	(40)	(34)	(32)
Movable other property	(64)	(52)	-	-
Investment Properties	(1)	-	-	-
Office furniture and equipment and sundry property and equipment	(85)	(88)	(66)	(72)
General administrative expenses	**(1,617)**	**(1,640)**	**(1,140)**	**(1,181)**

The Group does not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer are calculated as a percentage of current gross salary payments; these expenses are charged to the statement of profit or loss in the period in which the related compensation is earned by the employee. In 2021 expense amount for pension contributions was HRK 111 million for the Group (2020: HRK 116 million) and HRK 81 million for the Bank (2020: HRK 83 million).
More detailed information about depreciation and amortisation is provided in Note 28 and Note 29.

Average number of employees during the financial year (weighted according to the level of employment)

	2020	**2021**
Erste&Steiermärkische Bank d.d.	2,432	2,411
Erste Card Club d.o.o.	269	241
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	24	25
Erste Group IT HR d.o.o.	69	70
Erste bank Podgorica d.d.	274	295
Erste Card Slovenia d.o.o.	56	58
Erste&Steiermärkische S-Leasing d.o.o.	97	97
Total	**3,221**	**3,199**

9. Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/losses relate to derecognition of financial assets in Stage 3, they are reported under the line item 'Impairment result from financial instruments'.

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Losses from derecognition of financial assets at AC	(1)	-	(1)	-
Gains/losses from derecognition of financial assets measured at amortised cost	**(1)**	**-**	**(1)**	**-**

10. Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all financial instruments to which the IFRS 9 expected credit loss model applies. The impairment result also includes direct write-offs and recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2, Stage 3 and POCI assets are also included in this line item.
Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result.

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Financial assets at FVOCI	(39)	(9)	(39)	(8)
Financial assets at AC	(615)	8	(481)	31
Net allocation to credit loss allowances	(625)	(72)	(480)	(29)
Direct write-offs	(28)	(9)	(25)	(2)
Recoveries recorded directly to the income statement	47	90	33	63
Modification gains or losses	(9)	(1)	(9)	(1)
Finance lease receivables	(26)	(6)	-	-
Net allocation to credit loss allowances	(26)	(6)	-	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(105)	(160)	(107)	(167)
Impairment result from financial instruments	**(785)**	**(167)**	**(627)**	**(144)**

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year

	Credit loss allowances			GROUP
in HRK million	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 21				**(3,661)**
Net allocation to credit loss allowances	(318)			(318)
Increase due to passage of time (unwinding correction)		(21)		(21)
Derecognition due to sales			-	-
Write-offs			530	530
Changes in scope of consolidation			-	-
Foreign exchange differences		1		1
Other		16		16
Credit loss allowances Dec 21				**(3,453)**
Impairment gain/(loss) from POCI without CLA	71			
Direct write-offs	(9)			
Recoveries recorded directly to the income statement	90			
Modification gains or losses	(1)			
Impairment result from financial instruments	**(167)**			

10. Impairment result from financial instruments (continued)

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year (continued)

	Credit loss allowances			BANK
in HRK million	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 21				**(3,125)**
Net allocation to credit loss allowances	(274)			(274)
Increase due to passage of time (unwinding correction)		(13)		(13)
Derecognition due to sales			-	-
Write-offs			486	486
Changes in scope of consolidation			-	-
Foreign exchange differences		-		-
Other		2		2
Credit loss allowances Dec 21				**(2,924)**
Impairment gain/(loss) from POCI without CLA	70			
Direct write-offs	(2)			
Recoveries recorded directly to the income statement	63			
Modification gains or losses	(1)			
Impairment result from financial instruments	**(144)**			

11. Other operating result

The other operating result reflects all other income and expenses not directly attributable to the Bank's and the Group's ordinary activities.

In particular this includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets. Any impairment losses on goodwill are also included in this line item.

In addition, other operating result encompasses the following: expenses for other taxes and certain regulatory charges, income from the release of and expenses for allocations to provisions, impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method and gains or losses from derecognition of subsidiaries.

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Other operating expenses	**(146)**	**(210)**	**(126)**	**(210)**
Allocation to other provisions	(60)	(101)	(59)	(100)
Other taxes	(3)	(2)	(1)	(1)
Recovery and resolution fund contributions	(43)	(26)	(43)	(26)
Impairment of goodwill	-	(48)	-	-
Impairment of investment in subsidiaries	-	-	-	(48)
Result from properties/movables/other intangible assets other than goodwill	(16)	(33)	(16)	(35)
Result from other operating expenses/income	(24)	-	(7)	-
Other operating income	**20**	**201**	**19**	**197**
Release of other provisions	20	184	19	182
Result from other operating expenses/income	-	17	-	15
Other operating result	**(126)**	**(9)**	**(107)**	**(13)**

In Result of properties / movable's / other intangible assets other than goodwill, the impairment losses of property, plant and equipment, investment property, intangible asset and foreclosed assets are included.
More detailed information about impairment of foreclosed asset is provided in Note 30 Other assets.

11. Other operating result (continued)

Recovery and Resolution Fund

In the line ‘Recovery and resolution fund contributions’ contributions to the national resolution funds payable in 2021 in the amount of HRK 26 million for the Group and the Bank (2020: HRK 43 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means to resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore, the resolution funds have to be built over a period of 10 years, during which the contributions shall be spread out as even as possible until target level is reached.

Impairment of goodwill

In the line item ‘Impairment of goodwill’, the impairment loss on goodwill and investment in Erste Card Club d.o.o. recognized for 2021 is presented (in 2020 there was no impairment loss). For detailed infomation, please see Note 29 Intangible assets, Goodwill.

12. Income tax

Income tax comprises of current and deferred tax.

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, including deductible temporary differences arising from impairment in investments in subsidiaries and associates and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Non-recoverable amounts are considered in line ‘Non-Recoverable DTA ’ in the table.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed. For the subsidiaries, the local tax environments are considered.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Income tax are made up of current income taxes calculated in each of the Group companies based on the results reported for tax purposes, corrections to income tax for previous years, if any, and the change in deferred taxes.

12.Income tax (continued)

in HRK million	GROUP 2020	GROUP 2021	BANK 2020	BANK 2021
Current tax expense / income	(24)	(196)	(1)	(164)
Current period	(24)	(196)	(1)	(164)
Deferred tax expense / income	14	(32)	7	(21)
Current period	14	(32)	7	(21)
Total	**(10)**	**(228)**	**6**	**(185)**

The following table reconciles the income taxes reported in the statement of profit or loss to the pre-tax profit/loss multiplied by the nominal Croatian tax rate of 18% (2020: 18%).

in HRK million	GROUP 2020	GROUP 2021	BANK 2020	BANK 2021
Pre-tax profit	482	1,297	384	1,032
Income tax expense for the financial year at the domestic statutory tax rate	(88)	(232)	(69)	(186)
Impact of different foreign tax rates	4	4	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	16	2	16	2
Tax increases due to non-deductible expenses, additional business tax and similar elements	(4)	(2)	(3)	(1)
Impact of the recurring recoverability assessment of fiscal losses	62	-	62	-
Total	**(10)**	**(228)**	**6**	**(185)**
Effective tax rate	**2%**	**18%**	**(1)%**	**18%**

Major components of deferred tax assets and deferred tax liabilities

GROUP

in HRK million	Tax assets As of Dec 2021	Tax assets As of Dec 2020	Tax liabilities As of Dec 2021	Tax liabilities As of Dec 2020	Net variance 2021 Total	Through profit or loss	Through other equity	Through other comprehensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	10	19	-	-	(9)	(9)	-	-
Financial assets at fair value through other comprehensive income	-	-	(31)	(78)	47	-	22	25
Financial assets at amortised cost & trade & other receivables	52	60	-	-	(8)	(8)	-	-
Property and equipment (useful life in tax law different)	-	-	(1)	(1)	-	-	-	-
Impairment of investments in subsidiaries	98	86	-	-	12	12	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	3	3	-	-	-	-	-	-
Tax loss carry-forward	-	26	-	-	(26)	(26)	-	-
Other	76	77	-	-	(1)	(1)	-	-
Effect of netting according IAS 12.71	(33)	(75)	33	75	-	-	-	-
Total deferred taxes	**207**	**197**	**(2)**	**(4)**	**15**	**(32)**	**22**	**25**
Current taxes	**-**	**123**	**(92)**	**(6)**	**(196)**	**(196)**	**-**	**-**
Total taxes	**207**	**320**	**(94)**	**(10)**	**(181)**	**(228)**	**22**	**25**

12.Income tax (continued)

in HRK million	Tax assets		Tax liabilities		Net variance 2020			GROUP
	As of Dec 2020	As of Dec 2019	As of Dec 2020	As of Dec 2019	Total	Through profit or loss	Through other equity	Through other comprehensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	19	7	-	-	12	12	-	-
Financial assets at fair value through other comprehensive income	-	-	(78)	(75)	(4)	-	3	(7)
Financial assets at amortised cost & trade & other receivables	60	129	-	-	(69)	(69)	-	-
Property and equipment (useful life in tax law different)	-	-	(1)	(1)	-	-	-	-
Impairment of investments in subsidiaries	86	91	-	-	(5)	(5)	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	3	3	-	-	-	-	-	-
Tax loss carry-forward	26	15	-	-	11	11	-	-
Other	77	63	-	-	14	14	-	-
Non-Recoverable DTA	-	(51)	-	-	51	51	-	-
Effect of netting according IAS 12.71	(75)	(71)	75	71	-	-	-	-
Total deferred taxes	**197**	**187**	**(4)**	**(5)**	**10**	**14**	**3**	**(7)**
Current taxes	**123**	**12**	**(6)**	**(24)**	**(24)**	**(24)**	**-**	**-**
Total taxes	**320**	**199**	**(10)**	**(29)**	**(14)**	**(10)**	**3**	**(7)**

in HRK million	Tax assets		Tax liabilities		Net variance 2021			BANK
	As of Dec 2021	As of Dec 2020	As of Dec 2021	As of Dec 2020	Total	Through profit or loss	Through other equity	Through other comprehensive income
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	10	19	-	-	(9)	(9)	-	-
Financial assets at fair value through other comprehensive income	-	-	(31)	(75)	44	-	21	23
Financial assets at amortised cost & trade & other receivables	13	14	-	-	(1)	(1)	-	-
Impairment of investments in subsidiaries	90	77	-	-	13	13	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-	-
Tax loss carry-forward	-	26	-	-	(26)	(26)	-	-
Other	48	46	-	-	2	2	-	-
Effect of netting according IAS 12.71	(31)	(75)	31	75	-	-	-	-
Total deferred taxes	**132**	**110**	**-**	**-**	**23**	**(21)**	**21**	**23**
Current taxes	**-**	**112**	**(74)**	**-**	**(164)**	**(164)**	**-**	**-**
Total taxes	**132**	**222**	**(74)**	**-**	**(141)**	**(185)**	**21**	**23**

12.Income tax (continued)

	Tax assets		Tax liabilities		Net variance 2020				BANK
in HRK million	As of Dec 2020	As of Dec 2019	As of Dec 2020	As of Dec 2019	Total	Through profit or loss	Effect of business combinations	Through other equity	Through other comprehensive income
Temporary differences related to the following items:									
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	19	7	-	-	12	12	-	-	-
Financial assets at fair value through other comprehensive income	-	-	(75)	(69)	(6)	-	-	3	(9)
Financial assets at amortised cost & trade & other receivables	14	14	-	-	-	-	-	-	-
Impairment of investments in subsidiaries	77	81	-	-	(4)	(4)	-	-	-
Long-term employee provisions (tax valuation different)	1	1	-	-	-	-	-	-	-
Other provisions (tax valuation different)	1	1	-	-	-	-	-	-	-
Tax loss carry-forward	26	-	-	-	26	(7)	33	-	-
Other	46	40	-	-	6	6	-	-	-
Effect of netting according IAS 12.71	(75)	(69)	75	69	-	-	-	-	-
Total deferred taxes	**110**	**75**	**-**	**-**	**34**	**7**	**33**	**3**	**(9)**
Current taxes	**112**	**-**	**-**	**(8)**	**(1)**	**(1)**	**-**	**-**	**-**
Total taxes	**222**	**75**	**-**	**(8)**	**33**	**6**	**33**	**3**	**(9)**

On 19 June 2020, Erste factoring merged into the Bank, and Bank recognized deferred tax assets based on tax losses of Erste factoring. Total amount of recognized deferred tax assets amounted HRK 78 million out of which HRK 52 million was utilized at year-end 2020. As of 31 December 2020 deferred tax assets for tax losses carried forward amounted to HRK 26 million and during 2021 total amount of tax losses carried forward was utilized.

Financial instruments – Significant accounting policies

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.
In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the statement of financial position and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods:

i. Amortised cost and effective interest rate

Amortised cost of the financial asset is the amount at which a financial asset or a financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Gross carrying amount of the financial asset is the amortised cost of the financial asset before adjustment for loss allowances.

The effective interest method is a method of calculating the amortised cost of the financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or net carrying amount of financial liability. The effective interest rate is calculated on initial recognition of an instrument. For floating rate financial instruments, periodic reestimation of cash flows to reflect movements in market rates of interest, alters the effective interest rate.
When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but shall not consider expected credit losses. The calculation includes origination fees that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts to the par amount.

The effective interest rate is used for recognition of interest income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

1) Purchased or originated credit-impaired financial assets (POCI). For POCI financial assets, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition (see part ‘Impairment of financial instruments’). The credit-adjusted interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of the financial asset that is purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, the Group estimates the expected cash flows by considering expected credit losses as well.
2) Financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired. For credit-impaired financial assets, the Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods as long as the asset remains credit-impaired (see part ‘Impairment of financial instruments’).

ii. Fair value

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 22Fair value of financial instruments.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Regular way (spot) purchases and sales of financial assets are recognized at the settlement date (settlement date accounting), which is the date when the asset is delivered. Settlement date accounting refers to the recognition of an asset on the day it is received by the Group; and the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Even when the settlement date method is used, for financial assets measured at fair value the change in FV is accounted for in respect of trade dates. The trade date is the date that the Group commits itself to purchase or sell an asset. Effect of fair value changes is recognized in profit or loss for financial assets measured at fair value through profit or loss or in other comprehensive income for financial assets measured at fair value through other comprehensive income.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs that are directly attributable to the acquisition of financial instruments. In case of financial instruments at fair value through profit or loss, however, transaction costs are recognised directly in profit or loss. In most cases, the fair value at initial recognition equals the transaction price, i.e., the price transferred to originate or acquire a financial asset, or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depends on the following two criteria:

i. The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business model.
ii. The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (‘SPPI’) on the principal amount outstanding.

Business models for managing the financial assets

The business model is determined at a level which reflects how groups of financial assets are managed together to achieve a particular business objective. The assessment is focused on whether the assets are held in order to collect contractual cash flows, to both collect contractual cash flows and sell financial assets or sell financial assets.

Business model is determined by the key management personnel and it does not depend on management’s intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and it is determined on a higher level of aggregation.

Furthermore, business model can be observed by the way an entity is managed and information is provided to its management. The main criteria for performing the assessment stated in this paragraph can be grouped as follows:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and in particular, the way in which those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Classification and subsequent measurement of financial assets (continued)

The Group, based on the assessment performed in accordance with the IFRS 9 requirements, defined its business models:

1) Business model 'hold to collect' for entire loan portfolio (client business), for which hold-to-collect assessment of the sales within hold to collect contractual cash flows business model is performed on a yearly basis. From the Group's point of view, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the hold to collect contractual cash flows business model.
   Other cases of sales carried out in the 'hold to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, where the carrying amount of the sold assets held within the hold to collect portfolio measured at amortised cost is:
   > 1% of the moving average carrying amount of the portfolio in the respective period over last 3 months,
   > 3% of the moving average carrying amount of the portfolio in the respective period over last 12 months or
   > 5% of the moving average carrying amount of the portfolio in the respective period over last 36 months), OR

   it is considered necessary with regard to new managements expectations that the threshold in the prospective assessment could be breached, the Group performs a prospective test.
   If the outcome is that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.
2) Business models 'hold to collect', 'hold and sell' and other business models for securities (non-client business).
   For sales of securities held under business model "hold to collect" a hold-to-collect assessment is performed as explained above for the loan portfolio.

In accordance with IFRS 9 there are three business models defined:

_ Business model 'Hold to collect': The primary objective of this business model is to hold the financial asset in order to collect the contractual cash flows arising from it.
_ Business model 'Hold and Sell': The primary objective of this business model is that the financial asset is held in order to generate cash flows through both, collecting contractual cash flows and selling the financial asset.
_ Other business model (Trading and FVTPL portfolio): This model includes all financial assets that are not held within a business model whose objective is to hold assets in order to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. The objective of this model is maximising the cash flows by selling the financial assets. Typical example of such model is the 'held for trading' classification category.

Characteristics of contractual cash flows (SPPI test)

As required by IFRS 9, the Group performs the assessment of whether the contractual cash flows of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

The Group, based on this assessment, and taking into account the business model under which the financial asset is managed, determines the classification and measurement category of financial assets.

The SPPI assessment is an instrument-by-instrument assessment meaning the cash flow characteristics of the financial asset shall be assessed on a contractual level.

Generally, contractual cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding are consistent with a basic lending arrangement. In the basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. Interest can also include following basic elements:

Interest = Consideration for time value of money + Credit Spread + Admin costs + Compensation for any 'other basic lending risks' + Reasonable profit margin.

Classification and subsequent measurement of financial assets (continued)

If the contractual terms include characteristics that are not the basic elements of interest and therefore introduce exposure to risks or volatility in the contractual cash flows that are unrelated to basic lending arrangement, then financial asset fails the SPPI test. For financial assets not passing the SPPI test, measurement at amortised cost or at fair value through other comprehensive income is not possible and the assets must be measured at fair value through profit or loss.
Furthermore, the significance of any 'modifications' to the time value of money element of interest (e.g. mismatch between interest rate reset frequency and tenor of the interest rate, or non-standard base rate, etc.) shall be assessed by applying the 'benchmark test'.
The purpose of the benchmark test is to determine whether the modified time value of money element could result in contractual (undiscounted) cash flows which are significantly different from the (undiscounted) benchmark cash flows (benchmark deal). Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test. If the difference is material, the financial asset does not meet the SPPI condition. Hence, the fair value through profit or loss measurement applies.
To make this determination, the Group must consider the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

Application of the business model and SPPI test criteria leads to classification of financial assets into the following measurement categories described in the respective note:

1) Financial assets at amortised cost (AC)
2) Financial assets at fair value through other comprehensive income (FVOCI)
3) Financial assets at fair value through profit or loss (FVPL)

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost, except for:
_ Financial liabilities at fair value through profit or loss
_ Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition
_ Financial guarantee contracts
_ Commitments to provide a loan at a below-market interest rate
_ Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.
Further details on financial liabilities are in the Note 17.

Impairment of financial instruments under IFRS 9

Expected credit loss model
Expected credit loss model is more forward-looking impairment model, meaning a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. Therefore, the measurement of expected credit losses is performed at origination/purchase of a financial instrument and credit losses are recognised at its initial recognition. Main characteristic of the model is that all reasonable and supportable information that is available to the Group considering past due information, current conditions and forward-looking information are used for expected credit loss measurement. This model applies to all financial instruments that are subject to impairment, regardless of the type of the instrument or its measurement category.

The following financial instruments are included within the scope of IFRS 9 impairment requirements:
_ Financial assets measured at amortised cost
_ Financial assets measured at fair value through other comprehensive income (except equity instruments)
_ Other debt instruments in the scope of IFRS 9 impairment requirements (finance/operating lease receivables, trade and other receivables, contract assets)
_ Loan commitments given
_ Financial guarantees contracts to which IFRS 9 applies

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Impairment of financial instruments under IFRS 9 (continued)
12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit loss is defined as the expected credit losses that result from all possible default events over the expected life of a financial instrument.

For financial instruments in scope of IFRS 9 impairment requirements, the Group always recognises (at a minimum) the loss allowance in the amount of 12-month expected credit loss in profit or loss. Loss allowance in the amount of the lifetime expected losses is recognised on instruments for which there is a significant increase in credit risk since initial recognition or on credit impaired financial instruments.

Loss allowance is the way the expected credit losses are reflected in accounting:
_ as the allowance for expected credit losses on financial assets measured at amortised cost, lease receivables or contract assets, booked on a separate account decreasing the carrying amount of the asset, included in the net carrying amount of the financial assets on the statement of financial position;
_ as the accumulated impairment amount for financial assets measured at fair value through other comprehensive income recognized against other comprehensive income (not decreasing the carrying amount of the asset), reported under the line item 'Fair value reserve'; or
_ as the provision (liability) for loan commitments and financial guarantees given, reported under the line item 'Provisions' in the statement of financial position.

In the statement of profit or loss, impairment losses and their reversals (gains) on all types of financial instruments are reported under the line item 'Impairment result from financial instruments'.

When a financial asset subsequently becomes credit-impaired financial asset, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods as long as the asset is credit-impaired. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

For financial assets that are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

As previously mentioned, financial guarantees and loan commitments fall under the scope of IFRS 9 impairment model. For loan commitments and financial guarantees, the date that the Group becomes a party to the irrevocable commitment is the date of initial recognition for impairment purposes. Provisions for expected credit losses are not reversed when recognising the financial asset resulting from the loan commitment. Instead, the amount previously recognised as provision is transferred to the loss allowance, with only the difference up to the newly calculated loss allowance for resulting financial asset recognised in profit or loss as allocation or release of allowance (except for POCI).

Stages of credit quality of financial instruments

The three-stage approach for impairment of financial instruments, based on whether there has been a significant deterioration in the credit risk of the financial asset is defined. The stage of the financial instrument determines the amount of expected credit loss to be recognised as well as the amount of interest revenue recognised for the period:

Stage 1
_ credit risk for the financial instrument has not increased significantly since initial recognition
_ the loss allowance (or provision): at an amount equal to 12-month expected credit loss
_ interest revenue: recognised based on the gross carrying amount of the financial asset

Impairment of financial instruments under IFRS 9 (continued)

Stage 2
- credit risk for the financial instrument has significantly increased since initial recognition
- the loss allowance (provision): at an amount equal to lifetime expected credit loss
- interest revenue: recognised based on the gross carrying amount of the financial asset

Stage 3
- financial instrument is identified as credit-impaired
- the loss allowance (provision): at an amount equal to lifetime expected credit loss
- interest revenue: recognised based on the net carrying amount (amortised cost) of the financial asset

More detailed information about identification of significant increase in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 28.4 Risk management, part Credit risk.

Write-off

If there are no reasonable expectations of recovery, the Group will write-off the gross carrying amount of the financial assets. The written-off amount can be either full write-off or partial write-off.
A write-off constitutes a derecognition event and it is recognized as an offset between the loss allowance booked for the respective financial asset and its gross carrying amount.

The Group has specified criteria for writing off the unrecoverable balances in its loan business:
Write-off can result from forbearance measures whereby the Group contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance.
Write-offs of the unrecoverable exposure parts can be triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case).
Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost or, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings.

Derecognition of financial instruments including treatment of contractual modifications

(i) Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - it has transferred substantially all risks and rewards connected with ownership of the asset; or
  - has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is reported in the statement of profit or loss under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at fair value through other comprehensive income, under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.
For financial assets measured at fair value through profit or loss, the derecognition gains or losses are reported together with the measurement result under the line item 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

Derecognition of financial instruments including treatment of contractual modifications (continued)

(ii) Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty.
In some circumstances, the renegotiation or modification of the contractual cash flows of the financial asset can lead to derecognition of the existing financial asset and initial recognition of the modified financial asset.

The Group has developed a set of derecognition criteria that reflect modifications which are (either quantitatively or qualitatively) substantial enough, to satisfy the derecognition trigger:

- The modification results in a change of the contractual counterparty
- The modification results in one (or more) preceding contractual agreement(s) being changed in any of the following manners: currency change, the modification involves the introduction or removal of one or more contractual clauses which would trigger different IFRS 9 classification/measurement of a new instrument, the modification results in adjustment of the maturity/due dates of the repayment schedule, the modification results in changing amounts and/or due dates of the contractually due cash flows, and the arising modification loss/gain exceeds 10% of asset's gross carrying amount outstanding at the current modification date.
- The modification results from a commercial renegotiation of a performing non-forborne lending agreement and is initiated by a customer seeking for better terms and conditions as alternative to re-financing or early termination (prepayment).

As already mentioned, contractual modifications leading to derecognition of the related original asset result in the initial recognition of a new financial asset. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line item 'Impairment result from financial instruments'.
If the debtor is in default or the significant modification leads to the default, new asset is treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is reported in the statement of profit or loss in the line item 'Impairment result from financial instruments'.

Modifications of contractual cash flows not leading to derecognition of financial asset represent all contractual changes which affect amount and/or repayment schedule of the remaining contractual cash flows but do not lead to derecognition.
For debt instruments assets not measured at FVPL that are subject to a change in underlying cash flows due to contractual modifications that do not result in derecognition, the Group is obliged to recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets):

- Modification loss: if the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate is lower than the gross carrying amount of the financial asset before the modification
- Modification gain: if the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate is higher than the gross carrying amount of the financial asset before the modification.

In the statement of profit or loss, the modification gain or loss is presented in the line item 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line item 'Impairment result from financial instruments'.

(iii) Derecognition of financial liabilities

A financial liability (or part of a financial liability) is derecognised, when and only when it is extinguished, when the obligation specified in the contract is discharged or cancelled or expired.

Derecognition of financial instruments including treatment of contractual modifications (continued)

In the statement of profit or loss, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line item ‘Other gains/losses from financial instruments not measured at fair value through profit or loss‘, ‘Gains/losses from financial instruments measured at fair value through profit or loss’ and ‘Net trading result’ depending on the measurement category of the derecognised financial liability.

Significant accounting judgements, assumptions and estimates

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increase in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increase in credit risk, the Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.

Detailed disclosures are provided in Note 27 Credit risk. The development of loan loss provisions is described in Note 14 Financial assets at amortised cost, Note 16 Trade and other receivables, Note 21 Financial assets at fair value through other comprehensive income and in chapter Leases for Finance lease receivables.

Financial instruments held at amortised cost (AC)

Non derivative financial assets are measured at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model whose objective is to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include debt securities and loans and advances that do meet the conditions stated above as well as trade receivables and other receivables and cash and cash balances. On the statement of financial position, they are presented under the line item 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'.

Gains and losses, resulting from subsequent measurement of financial assets measured at amortised cost, are recognised as follows:
- Interest income is recognised in profit or loss, by using effective interest rate method, and presented in the line item 'Interest income' under 'Net interest income' in the statement of profit or loss
- Allowances for expected credit loss (gains and losses) are recognised in profit or loss, and presented in the line item 'Impairment result from financial instruments' in the statement of profit or loss
- Gains and losses resulting from foreign currency exchange differences are recognised in profit or loss and presented in the line item 'Net trading and fair value result' in the statement of profit or loss.

Realised gains or losses from derecognition of the assets are recognised in profit or loss for the period and presented in the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

Financial assets at amortised cost constitute the largest measurement category in the Group, which includes the loan business to customers, interbank lending business, deposits with central bank, trade and other receivables, investment in debt securities.

For description of financial liabilities measured at amortised cost refer to Note 17.

13. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Cash on hand	3,336	3,052	3,095	2,831
Cash balances at central banks	4,957	11,036	4,763	10,577
Other demand deposits	380	442	89	110
Cash and cash balances	**8,673**	**14,530**	**7,947**	**13,518**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Cash on hand	3,336	3,052	3,095	2,831
Cash balances at central banks	4,750	11,036	4,556	10,577
Other demand deposits	380	442	89	110
Placement with banks with original maturity up to 3 months	2	-	2	-
Cash and cash equivalents	**8,468**	**14,530**	**7,742**	**13,518**

14. Financial assets at amortised cost

Debt securities at amortised cost

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield generating activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the hold to collect contractual cash flows business model, see paragraph 'Initial recognition and measurement' in chapter 'Financial instruments - Significant accounting policies'.

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of Group's and Bank's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2021 and 31 December 2020 is provided in the table below.

									GROUP
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	4,940	-	-	4,940	(5)	-	-	(5)	4,935
Total	**4,940**	**-**	**-**	**4,940**	**(5)**	**-**	**-**	**(5)**	**4,935**

									GROUP
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
General governments	2,363	-	-	2,363	(2)	-	-	(2)	2,361
Total	**2,363**	**-**	**-**	**2,363**	**(2)**	**-**	**-**	**(2)**	**2,361**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	4,676	-	-	4,676	(2)	-	-	(2)	4,674
Total	**4,676**	**-**	**-**	**4,676**	**(2)**	**-**	**-**	**(2)**	**4,674**

									BANK
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
General governments	2,181	-	-	2,181	(1)	-	-	(1)	2,180
Total	**2,181**	**-**	**-**	**2,181**	**(1)**	**-**	**-**	**(1)**	**2,180**

14. Financial assets at amortised cost (continued)

Debt securities at amortised cost (continued)

There are no purchased or originated credit impaired (POCI) debt securities at AC as of 31 December 2021 and 31 December 2020.

Listed bonds issued by the Republic of Croatia, Republic of Slovenia and United States of America are fixed income debt securities denominated in HRK, EUR and USD. These bonds have maturities from 2022 to 2035 and bear coupon interest from 0.125% to 6.000% p.a.
The fair value of financial assets at amortized cost for the Group and the Bank is approximately HRK 20.2 million higher than their value as at 31 December 2021 (2020: HRK 51.2 million higher).

The movement in the credit loss allowances for debt securities at AC for the reporting period is provided in the table below:

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(2)	(2)	2	-	(3)	-	(5)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**(2)**	**2**	**-**	**(3)**	**-**	**(5)**

							GROUP
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2020						Dec 2020
Stage 1	(2)	-	-	-	-	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(1)	-	-	-	(1)	-	(2)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(2)**

							BANK
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2020						Dec 2020
Stage 1	(1)	-	-	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2021 and not sold by 31 December 2021 amounts to HRK 2,728 million for the Group and HRK 2,464 million for the Bank (2020: HRK 752 million for the Group and for the Bank). Increase of carrying amount of AC debt securities is mostly result of purchased bonds issued by the Republic of Croatia in amount of HRK 2,308 million.
The GCA of AC debt securities that were held at 1 January 2021 and de-recognized (matured) during the year 2021 amounts to HRK 183 million for the Group and nil for the Bank (2020: HRK 292 million for the Group and for the Bank).

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to banks

The analysis of the gross carrying amount (GCA) and of related credit loss allowance (CLA) of Group's and Bank's loans and advances at AC to banks per impairment buckets as of 31 December 2021 and 31 December 2020 is provided in the table below:

GROUP									
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
Central banks	3,879	-	-	3,879	(3)	-	-	(3)	3,876
Credit institutions	531	-	-	531	(1)	-	-	(1)	530
Total	**4,410**	**-**	**-**	**4,410**	**(4)**	**-**	**-**	**(4)**	**4,406**

GROUP									
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
Central banks	3,266	-	-	3,266	(2)	-	-	(2)	3,264
Credit institutions	785	-	-	785	(8)	-	-	(8)	777
Total	**4,051**	**-**	**-**	**4,051**	**(10)**	**-**	**-**	**(10)**	**4,041**

BANK									
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
Central banks	3,794	-	-	3,794	(2)	-	-	(2)	3,792
Credit institutions	531	-	-	531	(1)	-	-	(1)	530
Total	**4,325**	**-**	**-**	**4,325**	**(3)**	**-**	**-**	**(3)**	**4,322**

BANK									
	GCA				CLA				
in HRK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
Central banks	3,194	-	-	3,194	(2)	-	-	(2)	3,192
Credit institutions	784	-	-	784	(8)	-	-	(8)	776
Total	**3,978**	**-**	**-**	**3,978**	**(10)**	**-**	**-**	**(10)**	**3,968**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021 and 31 December 2020.

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to banks (continued)

The movement in the credit loss allowances for AC loans and advances to banks in the reporting period is provided in the table below:

GROUP							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(10)	(1)	8	-	(1)	-	(4)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(10)**	**(1)**	**8**	**-**	**(1)**	**-**	**(4)**

GROUP							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2020						Dec 2020
Stage 1	(5)	(8)	3	-	(1)	1	(10)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(5)**	**(8)**	**3**	**-**	**(1)**	**1**	**(10)**

BANK							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2021						Dec 2021
Stage 1	(10)	(1)	8	-	-	-	(3)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(10)**	**(1)**	**8**	**-**	**-**	**-**	**(3)**

BANK							
in HRK million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2020						Dec 2020
Stage 1	(4)	(8)	3	-	(1)	-	(10)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(4)**	**(8)**	**3**	**-**	**(1)**	**-**	**(10)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to HRK 1,111 million for the Group and for the Bank (2020: HRK 764 million for the Group and for the Bank).

The GCA of AC loans and advances to banks that were held at 1 January 2021 and fully derecognized (matured) during the year 2021 amounts to HRK 764 million and for the Bank (2020: HRK 451 million for the Group and for the Bank).

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of loans and advances at AC to customers per impairment buckets as of 31 December 2021 and 31 December 2020 is provided in the table below:

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	8,749	723	-	-	9,472	(12)	(15)	-	-	(27)	9,445
Other financial corporations	24	3	9	-	36	(1)	-	(9)	-	(10)	26
Non-financial corporations	13,812	5,149	1,126	200	20,287	(128)	(555)	(782)	(108)	(1,573)	18,714
Households	18,707	2,886	1,530	10	23,133	(100)	(181)	(1,048)	(2)	(1,331)	21,802
Total	**41,292**	**8,761**	**2,665**	**210**	**52,928**	**(241)**	**(751)**	**(1,839)**	**(110)**	**(2,941)**	**49,987**

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
General governments	9,438	156	1	-	9,595	(14)	(3)	(1)	-	(18)	9,577
Other financial corporations	138	6	-	-	144	(5)	-	-	-	(5)	139
Non-financial corporations	13,419	4,950	1,548	154	20,071	(140)	(405)	(1,016)	(70)	(1,631)	18,440
Households	19,310	1,940	1,829	10	23,089	(121)	(144)	(1,227)	(1)	(1,493)	21,596
Total	**42,305**	**7,052**	**3,378**	**164**	**52,899**	**(280)**	**(552)**	**(2,244)**	**(71)**	**(3,147)**	**49,752**

											BANK
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	8,405	723	-	-	9,128	(9)	(15)	-	-	(24)	9,104
Other financial corporations	142	3	-	-	145	(1)	-	-	-	(1)	144
Non-financial corporations	13,205	4,809	1,004	200	19,218	(121)	(512)	(717)	(108)	(1,458)	17,760
Households	15,912	2,579	1,328	10	19,829	(57)	(156)	(899)	(2)	(1,114)	18,715
Total	**37,664**	**8,114**	**2,332**	**210**	**48,320**	**(188)**	**(683)**	**(1,616)**	**(110)**	**(2,597)**	**45,723**

											BANK
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
General governments	9,071	138	1	-	9,210	(11)	(2)	(1)	-	(14)	9,196
Other financial corporations	312	6	-	-	318	(4)	-	-	-	(4)	314
Non-financial corporations	12,836	4,503	1,453	154	18,946	(133)	(365)	(964)	(70)	(1,532)	17,414
Households	16,257	1,650	1,606	10	19,523	(75)	(118)	(1,079)	(1)	(1,273)	18,250
Total	**38,476**	**6,297**	**3,060**	**164**	**47,997**	**(223)**	**(485)**	**(2,044)**	**(71)**	**(2,823)**	**45,174**

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

The movement in the credit loss allowances for AC loans and advances to customers in the reporting period is provided in the table below:

									GROUP
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	**(280)**	**(91)**	**33**	**45**	**51**	**-**	**-**	**1**	**(241)**
General governments	(14)	(2)	1	1	2	-	-	-	(12)
Other financial corporations	(5)	(1)	1	-	4	-	-	-	(1)
Non-financial corporations	(140)	(61)	22	23	28	-	-	-	(128)
Households	(121)	(27)	9	21	17	-	-	1	(100)
Stage 2	**(552)**	**(136)**	**67**	**(190)**	**59**	**-**	**-**	**1**	**(751)**
General governments	(3)	(3)	3	(7)	(5)	-	-	-	(15)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(405)	(117)	49	(80)	(3)	-	-	1	(555)
Households	(144)	(16)	15	(103)	67	-	-	-	(181)
Stage 3	**(2,244)**	**(55)**	**239**	**(8)**	**(268)**	**11**	**484**	**2**	**(1,839)**
General governments	(1)	-	-	-	1	-	-	-	-
Other financial corporations	-	-	-	-	(9)	-	-	-	(9)
Non-financial corporations	(1,016)	(33)	143	-	(100)	10	212	2	(782)
Households	(1,227)	(22)	96	(8)	(160)	1	272	-	(1,048)
POCI	**(71)**	**-**	**11**	**-**	**(55)**	**-**	**5**	**-**	**(110)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(70)	-	11	-	(54)	-	5	-	(108)
Households	(1)	-	-	-	(1)	-	-	-	(2)
Total	**(3,147)**	**(282)**	**350**	**(153)**	**(213)**	**11**	**489**	**4**	**(2,941)**

									GROUP
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2020								Dec 2020
Stage 1	**(322)**	**(78)**	**23**	**34**	**67**	**-**	**-**	**(4)**	**(280)**
General governments	(109)	(4)	1	-	100	-	-	(2)	(14)
Other financial corporations	(1)	(1)	1	-	(4)	-	-	-	(5)
Non-financial corporations	(134)	(52)	13	2	32	-	-	(1)	(140)
Households	(78)	(21)	8	32	(61)	-	-	(1)	(121)
Stage 2	**(155)**	**(14)**	**23**	**(368)**	**(38)**	**1**	**-**	**(1)**	**(552)**
General governments	(2)	-	-	(2)	1	-	-	-	(3)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(74)	(9)	14	(250)	(85)	-	-	(1)	(405)
Households	(79)	(5)	9	(116)	46	1	-	-	(144)
Stage 3	**(2,062)**	**(28)**	**141**	**(32)**	**(434)**	**2**	**188**	**(19)**	**(2,244)**
General governments	(1)	-	-	-	-	-	-	-	(1)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(1,064)	(22)	81	(6)	(145)	-	152	(12)	(1,016)
Households	(997)	(6)	60	(26)	(289)	2	36	(7)	(1,227)
POCI	**(109)**	**-**	**1**	**-**	**36**	**-**	**2**	**(1)**	**(71)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(108)	-	1	-	36	-	2	(1)	(70)
Households	(1)	-	-	-	-	-	-	-	(1)
Total	**(2,648)**	**(120)**	**188**	**(366)**	**(369)**	**3**	**190**	**(25)**	**(3,147)**

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

BANK

in HRK million	As of Jan 2021	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2021
Stage 1	**(223)**	**(85)**	**29**	**38**	**53**	**-**	**-**	**-**	**(188)**
General governments	(11)	(2)	1	-	3	-	-	-	(9)
Other financial corporations	(4)	(1)	1	-	3	-	-	-	(1)
Non-financial corporations	(133)	(57)	20	23	26	-	-	-	(121)
Households	(75)	(25)	7	15	21	-	-	-	(57)
Stage 2	**(485)**	**(135)**	**59**	**(178)**	**55**	**-**	**-**	**1**	**(683)**
General governments	(2)	(3)	3	(7)	(6)	-	-	-	(15)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(365)	(116)	44	(78)	2	-	-	1	(512)
Households	(118)	(16)	12	(93)	59	-	-	-	(156)
Stage 3	**(2,044)**	**(50)**	**206**	**(4)**	**(188)**	**1**	**461**	**2**	**(1,616)**
General governments	(1)	-	-	-	1	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(964)	(28)	137	-	(68)	-	204	2	(717)
Households	(1,079)	(22)	69	(4)	(121)	1	257	-	(899)
POCI	**(71)**	**-**	**11**	**-**	**(55)**	**-**	**5**	**-**	**(110)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(70)	-	11	-	(54)	-	5	-	(108)
Households	(1)	-	-	-	(1)	-	-	-	(2)
Total	**(2,823)**	**(270)**	**305**	**(144)**	**(135)**	**1**	**466**	**3**	**(2,597)**

BANK

in HRK million	As of Jan 2020	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2020
Stage 1	**(284)**	**(71)**	**17**	**23**	**95**	**-**	**-**	**(3)**	**(223)**
General governments	(106)	(3)	1	-	99	-	-	(2)	(11)
Other financial corporations	(1)	(1)	1	-	(3)	-	-	-	(4)
Non-financial corporations	(121)	(47)	11	2	23	-	-	(1)	(133)
Households	(56)	(20)	4	21	(24)	-	-	-	(75)
Stage 2	**(139)**	**(13)**	**20**	**(339)**	**(14)**	**1**	**-**	**(1)**	**(485)**
General governments	(1)	-	-	(1)	-	-	-	-	(2)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(69)	(8)	14	(234)	(67)	-	-	(1)	(365)
Households	(69)	(5)	6	(104)	53	1	-	-	(118)
Stage 3	**(1,917)**	**(29)**	**125**	**(11)**	**(374)**	**2**	**178**	**(18)**	**(2,044)**
General governments	(1)	-	-	-	-	-	-	-	(1)
Other financial corporations	-	-	-	-	1	-	-	(1)	-
Non-financial corporations	(1,013)	(23)	79	(2)	(140)	-	146	(11)	(964)
Households	(903)	(6)	46	(9)	(235)	2	32	(6)	(1,079)
POCI	**(109)**	**-**	**1**	**-**	**38**	**-**	**1**	**(2)**	**(71)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(108)	-	1	-	38	-	1	(2)	(70)
Households	(1)	-	-	-	-	-	-	-	(1)
Total	**(2,449)**	**(113)**	**163**	**(327)**	**(255)**	**3**	**179**	**(24)**	**(2,823)**

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to customers at AC are reported in column 'Derecognitions'.

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered reassignments of the related AC loans and advances to customers from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'
The profit and loss neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Changes in credit risk'.
Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Changes in credit risk'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to HRK 21 million for the Group and HRK 13 million for the Bank cumulatively for the year 2021, (2020: HRK 33 million for the Group and HRK 26 million for the Bank), which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year.

The column 'Insignificant modifications (net)' reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in column 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages for loans and advances at amortised cost to customers

GROUP

in HRK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2021								
General governments	505	50	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	1,478	693	142	10	43	-	-	1
Households	1,597	401	155	102	176	34	-	-
Total	**3,580**	**1,144**	**297**	**112**	**219**	**34**	**-**	**1**

GROUP

in HRK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2020								
General governments	133	12	-	-	-	-	-	-
Other financial corporations	3	-	-	-	-	-	-	-
Non-financial corporations	4,234	53	136	-	148	-	10	23
Households	1,300	554	186	59	408	49	5	2
Total	**5,670**	**619**	**322**	**59**	**556**	**49**	**15**	**25**

Detailed information on stage transfers due to Covid-19 measures are described in Note 27 Credit risk.

14. Financial assets at amortised cost (continued)

Loans and advances at amortised cost to customers (continued)

								BANK
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HRK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2021								
General governments	505	36	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	1,389	671	104	8	41	-	-	1
Households	1,443	312	126	97	140	21	-	-
Total	**3,337**	**1,019**	**230**	**105**	**181**	**21**	**-**	**1**

								BANK
in HRK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2020								
General governments	133	12	-	-	-	-	-	-
Other financial corporations	3	-	-	-	-	-	-	-
Non-financial corporations	3,876	45	131	-	98	-	10	23
Households	1,043	180	149	51	334	36	5	2
Total	**5,055**	**237**	**280**	**51**	**432**	**36**	**15**	**25**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to HRK 13,729 million for the Group and HRK 13,016 million for the Bank (2020: to HRK 14,027 million for the Group and HRK 13,254 million for the Bank).

The GCA of the AC loans and advances to customers that were held at 1 January 2021 and fully de-recognized (mainly due to matured) during the year 2021 amounts to HRK 7,094 million for the Group and HRK 6,711 million for the Bank (2020: HRK 4,262 million for the Group and HRK 4,092 million for the Bank).

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2021 amounted to HRK 55 million for the Group and for the Bank (2020: HRK 79 million for the Group and for the Bank).

15. Debt instruments at amortised cost subject to contractual modifications

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

				GROUP
		2020		2021
in HRK million	Amortised cost before the modification	Net Modification gains/ losses	Amortised cost before the modification	Net Modification gains/ losses
Loans and advances				
General governments	2	-	4	-
Non-financial corporations	1,214	(3)	85	-
Households	563	(6)	148	-
Total	**1,779**	**(9)**	**237**	**-**

15. Debt instruments at amortised cost subject to contractual modifications (continued)

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3 (continued)

				BANK
		2020		2021
in HRK million	Amortised cost before the modification	Net Modification gains/ losses	Amortised cost before the modification	Net Modification gains/ losses
Loans and advances				
General governments	2	-	4	-
Non-financial corporations	1,205	(3)	51	-
Households	557	(6)	134	-
Total	**1,764**	**(9)**	**189**	**-**

As at 31 December 2021, the total GCA of debt instruments measured at AC, which were impacted by non-significant contractual modifications during the year 2021 amounted to HRK 237 million for the Group and HRK 189 million for the Bank (2020: HRK 1,779 million for the Group and for the Bank). For detailes please refer to Note 27.

The impact of contractual modifications (net modification losses) in the profit or loss of the year 2021 amounted to HRK 715 thousand for the Group and HRK 830 thousand for the Bank (2020: HRK 9 million for the Group and for the Bank).

16. Trade and other receivables

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
General governments	251	82	-	-	333	(3)	(1)	-	-	(4)	329
Credit institutions	78	1	-	-	79	-	-	-	-	-	79
Other financial corporations	21	2	-	-	23	-	-	-	-	-	23
Non-financial corporations	437	34	83	1	555	(6)	(2)	(71)	-	(79)	476
Households	339	29	101	-	469	(16)	(3)	(87)	-	(106)	363
Total	**1,126**	**148**	**184**	**1**	**1,459**	**(25)**	**(6)**	**(158)**	**-**	**(189)**	**1,270**

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
General governments	166	1	-	-	167	(1)	-	-	-	(1)	166
Credit institutions	59	2	-	-	61	-	-	-	-	-	61
Other financial corporations	19	-	-	-	19	-	-	-	-	-	19
Non-financial corporations	396	41	97	-	534	(9)	(2)	(80)	-	(91)	443
Households	404	39	143	-	586	(14)	(3)	(115)	-	(132)	454
Total	**1,044**	**83**	**240**	**-**	**1,367**	**(24)**	**(5)**	**(195)**	**-**	**(224)**	**1,143**

16. Trade and other receivables (continued)

BANK

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA POCI	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA POCI	CLA Total	Carrying amount
2021											
General governments	117	82	-	-	199	(2)	(1)	-	-	(3)	196
Credit institutions	74	1	-	-	75	-	-	-	-	-	75
Other financial corporations	18	2	-	-	20	-	-	-	-	-	20
Non-financial corporations	358	31	50	1	440	(4)	(2)	(44)	-	(50)	390
Households	3	7	29	-	39	-	(1)	(27)	-	(28)	11
Total	**570**	**123**	**79**	**1**	**773**	**(6)**	**(4)**	**(71)**	**-**	**(81)**	**692**

BANK

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA POCI	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA POCI	CLA Total	Carrying amount
2020											
General governments	132	1	-	-	133	(1)	-	-	-	(1)	132
Credit institutions	57	2	-	-	59	-	-	-	-	-	59
Other financial corporations	15	-	-	-	15	-	-	-	-	-	15
Non-financial corporations	339	36	64	-	439	(7)	(1)	(51)	-	(59)	380
Households	3	6	29	-	38	-	-	(28)	-	(28)	10
Total	**546**	**45**	**93**	**-**	**684**	**(8)**	**(1)**	**(79)**	**-**	**(88)**	**596**

Trade and other receivables consist of factoring receivables, card business receivables and other receivables

Allowances for trade and other receivables

GROUP

in HRK million	As of Jan 2021	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2021
Stage 1	(24)	(12)	10	1	-	-	-	-	(25)
Stage 2	(5)	-	3	(2)	(2)	-	-	-	(6)
Stage 3	(195)	(4)	31	(5)	(34)	-	41	8	(158)
POCI	-	-	-	-	-	-	-	-	-
Total	**(224)**	**(16)**	**44**	**(6)**	**(36)**	**-**	**41**	**8**	**(189)**

GROUP

in HRK million	As of Jan 2020	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of Dec 2020
Stage 1	(30)	(9)	1	10	4	-	-	-	(24)
Stage 2	(20)	(1)	3	(18)	31	-	-	-	(5)
Stage 3	(173)	(1)	28	(3)	(59)	-	13	-	(195)
POCI	-	-	-	-	-	-	-	-	-
Total	**(223)**	**(11)**	**32**	**(11)**	**(24)**	**-**	**13**	**-**	**(224)**

16. Trade and other receivables (continued)

Allowances for trade and other receivables (continued)

BANK									
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	(8)	(9)	7	-	4	-	-	-	(6)
Stage 2	(1)	(1)	-	(1)	(1)	-	-	-	(4)
Stage 3	(79)	(2)	4	-	(14)	-	20	-	(71)
POCI	-	-	-	-	-	-	-	-	-
Total	**(88)**	**(12)**	**11**	**(1)**	**(11)**	**-**	**20**	**-**	**(81)**

BANK									
in HRK million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2020								Dec 2020
Stage 1	(1)	(8)	1	-	1	-	-	(1)	(8)
Stage 2	-	(1)	1	-	-	-	-	(1)	(1)
Stage 3	(50)	(1)	11	-	(19)	-	8	(28)	(79)
POCI	-	-	-	-	-	-	-	-	-
Total	**(51)**	**(10)**	**13**	**-**	**(18)**	**-**	**8**	**(30)**	**(88)**

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of trade and other receivables that were assigned on 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages trade and other receivables

GROUP		
in HRK million	2020	2021
Transfers between Stage 1 and Stage 2	**208**	**144**
To Stage 2 from Stage 1	40	91
To Stage 1 from Stage 2	168	53
Transfers between Stage 2 and Stage 3	**34**	**17**
To Stage 3 from Stage 2	28	15
To Stage 2 from Stage 3	6	2
Transfers between Stage 1 and Stage 3	**47**	**31**
To Stage 3 from Stage 1	40	26
To Stage 1 from Stage 3	7	5

BANK		
in HRK million	2020	2021
Transfers between Stage 1 and Stage 2	**54**	**77**
To Stage 2 from Stage 1	19	75
To Stage 1 from Stage 2	35	2
Transfers between Stage 2 and Stage 3	**2**	**3**
To Stage 3 from Stage 2	2	3
To Stage 2 from Stage 3	-	-
Transfers between Stage 1 and Stage 3	**4**	**3**
To Stage 3 from Stage 1	4	3
To Stage 1 from Stage 3	-	-

The year-end total GCA of the trade and other receivables that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to HRK 713 million for the Group and HRK 585 million for the Bank (2020: HRK 573 million for the Group and HRK 540 million for the Bank). The GCA of the trade and other receivables that were held on 1 January 2021 and fully de-recognized (matured) during the year 2021 amounts to HRK 450 million for the Group and HRK 417 million for the Bank (2020: HRK 69 million for the Group and HRK 46 million for the Bank)

Financial liabilities measured at amortised cost

For presentation in the statement of financial position, the line item ‘Financial liabilities measured at amortised cost’ is used. The line item is further broken down to ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.
Interest expense is calculated by using effective interest rate method and presented in the line item ‘Interest expenses’ under ‘Net interest income’ in the statement of profit or loss.
Gains and losses from derecognition of financial liabilities are recognised in profit or loss for the period and presented in the line item ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss’.

17. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Overnight deposits	312	172	331	172
Term deposits	6,713	6,129	2,892	2,838
Subordinated loan	1,285	226	1,285	226
Repurchase agreements	738	6	701	6
Deposits from banks	**9,048**	**6,533**	**5,209**	**3,242**

As at 31 December 2021, Bank's Deposits from banks include HRK 1,059 million of long- term intra group funding (2020: HRK 1,203 million) and HRK 1,349 million of supranational funding (2020: HRK 1,380 million).

The subordinated loans received from Erste Group Bank AG and their total as at 31 December 2021 amounts to EUR 30 million or HRK 226 million (2020: EUR 170 million or HRK 1,281 million). EUR 30 million of subordinated loans are payable in 2024 and their interest rate is 2.11% plus 3-month EURIBOR. EUR 80 million and EUR 60 million of subordinated loans were due in 2021 and 2022, respectivaley, and repaid in 2021.

As at 31 December 2020, ‘Repurchase agreements’ refer to structural repo received from CNB in amount of HRK 700 million with interest rate of 0.25% and maturity in March 2025 which was repaid early during 2021.

As at 31 December 2021, Bank’s funding from HBOR amounts to HRK 1,225 million (2020: HRK 1,987 million).

Subordinated loans (Tier 2) are included in capital instruments as regulated by the respective Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. Impact on own funds ratio from Tier 2 instruments in 2021 is +0.24% (2020: +0.71%).

In case of opening of bankruptcy proceedings against the Bank, claims arising from non-subordinated liabilities shall take priority over subordinated claims. Owners of subordinated debt (Tier 2), will bear losses in bankruptcy proceedings against the Bank. Where the level of capital is still insufficient after the write down of relevant capital instruments (Tier 2), Resolution Authority may apply resolution tools which lead to losses being borne by creditors according to insolvency hierarchy.

The Group and the Bank have not had any defaults of principal or interest or other breaches with respect to their subordinated liabilities during the year 2021 and 2020.

17. Financial liabilities measured at amortised costs (continued)

Deposits from customers

in HRK million	GROUP 2020	GROUP 2021	BANK 2020	BANK 2021
Overnight deposits	**39,181**	**49,186**	**37,406**	**46,925**
Savings deposits	2,680	3,582	2,680	3,582
Other financial corporations	-	-	-	-
Non-financial corporations	420	501	420	501
Households	2,260	3,081	2,260	3,081
Non-savings deposits	36,501	45,604	34,726	43,343
General governments	2,441	3,322	2,331	3,190
Other financial corporations	1,503	1,442	1,480	1,285
Non-financial corporations	13,743	17,335	12,972	16,402
Households	18,814	23,505	17,943	22,466
Term deposits	**20,947**	**19,082**	**19,847**	**18,002**
Deposits with agreed maturity	20,630	18,751	19,530	17,671
Savings deposits	17,862	16,554	17,458	16,071
Other financial corporations	1,587	1,192	1,653	1,187
Non-financial corporations	1,325	1,673	1,325	1,673
Households	14,950	13,689	14,480	13,211
Non-savings deposits	2,768	2,197	2,072	1,600
General governments	2,173	1,669	2,072	1,600
Other financial corporations	277	264	-	-
Non-financial corporations	318	256	-	-
Households	-	8	-	-
Deposits redeemable at notice	317	331	317	331
General governments	8	10	8	10
Other financial corporations	8	28	8	28
Non-financial corporations	187	183	187	183
Households	114	110	114	110
Repurchase agreements	**-**	**-**	**-**	**-**
General governments	-	-	-	-
Non-financial corporations	-	-	-	-
Deposits from customers	**60,128**	**68,268**	**57,253**	**64,927**
General governments	4,622	5,001	4,411	4,800
Other financial corporations	3,375	2,926	3,141	2,500
Non-financial corporations	15,993	19,948	14,904	18,759
Households	36,138	40,393	34,797	38,868
Other financial liabilities	**783**	**748**	**163**	**199**

17. Financial liabilities measured at amortised costs (continued)

Other financial libilities consist of card transactions liabilities, accounts payables (foreign and domestic suppliers) and other financial liabilities.

Debt securities issued

in HRK million	GROUP 2020	GROUP 2021	BANK 2020	BANK 2021
Debt securities issued	677	4,010	677	4,010
Bonds	677	4,010	677	4,010
Debt securities issued	**677**	**4,010**	**677**	**4,010**

The analysis of the Debt securities issued as of 31 December 2021 and 31 December 2020 is provided in the table below:

2021	Currency	Nominal value EUR million	Nominal value HRK million	Interest	Issuance date	Maturity
Senior	EUR	50	376	1.81%	30.11.2017	30.11.2022
Senior	HRK	-	300	1.50%	30.11.2018	30.11.2023
Senior Preferred	EUR	45	338	0.85%	5.2.2021	5.2.2026
Senior Preferred	EUR	400	3,007	0.84%	6.7.2021	6.7.2028
Total		**495**	**4,021**			

2020	Currency	Nominal value EUR million	Nominal value HRK million	Interest	Issuance date	Maturity
Senior	EUR	50	377	1.81%	30.11.2017	30.11.2022
Senior	HRK	-	300	1.50%	30.11.2018	30.11.2023
Total		**50**	**677**			

Financial instruments at fair value

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value through profit or loss measurement category to financial assets is a residual measurement category. This measurement category relates to financial assets that are part of residual business models, i.e. they are neither held in 'hold to collect' business model nor held in 'hold to collect and sell' business model. These financial assets are generally expected to be sold before their maturity or they are managed, and their performance is evaluated on a fair value basis. Such business models are typical of assets that are held for trading, assets whose value is expected to be primarily realised through sales.
Additionally, financial assets whose contractual cash flows are not considered as SPPI compliant are automatically measured at fair value through profit or loss.

In the statement of financial position, debt instruments measured at fair value through profit or loss are presented as 'Financial assets held for trading', sub-items 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss' (sub-items 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'). Non-trading financial assets measured at fair value through profit or loss consists of financial assets mandatorily measured at fair value presented as 'Financial assets mandatorily at fair value through profit or loss', sub-item 'Debt securities', disclosed in Note 20. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI compliant, or they are held as part of residual business models that are other than held for trading.
Investments in equity instruments that are held for trading (i.e. financial assets held by the trading function of the Bank) are measured at fair value through profit or loss. They are included in the balance sheet under the line item 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments that are not held for trading are also measured at fair value through profit or loss (unless they are designated at FVOCI). They are presented in the balance sheet under the line item 'Non-trading financial assets at fair value through profit or loss', sub-item 'Equity instruments', sub-category 'mandatorily at fair value through profit or loss' in Note 20.

For recognition of gains and losses resulting from subsequent measurement of financial assets measured at fair value through profit or loss, the following applies:
- Changes in fair value (gains and losses) are recognised in profit or loss, and presented in the line item 'Net trading and fair value result' for financial assets held for trading and in the line item 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at fair value through profit or loss
- Interest income is recognised in profit or loss, by using effective interest rate method, without taking into account any up-front fees or costs directly attributed to the financial assets, and reported in the line item 'Other similar income' under 'Net interest income' in the statement of profit or loss
- Dividend income is recognised in profit or loss, and reported in the line item 'Dividend income' in the statement of profit or loss
- Gains and losses resulting from foreign currency exchange differences are recognised in profit or loss and presented in the line item 'Net trading and fair value result'.

Upon derecognition, gains and losses are recognised in profit or loss, and presented in the line item 'Net trading result' for financial assets held for trading and in the line item 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading. On the balance sheet, financial liabilities held for trading are reported under the line 'Financial liabilities held for trading', sub items 'Derivatives' and 'Other financial liabilities held for trading'.
For recognition of gains and losses resulting from subsequent measurement of financial liabilities measured at fair value through profit or loss, the following applies:
- Interest expense is reported in the line item 'Other similar expenses' under 'Net interest income' in the statement of profit or loss
- Changes in fair value (gains and losses) are recognised in profit or loss, and are reported, for financial liabilities held for trading in the line item 'Net trading result' in the statement of profit or loss
- Gains or losses resulting from derecognition are recognised in profit or loss, and reported, for financial liabilities held for trading in the line item 'Net trading result' in the statement of profit or loss.

18. Derivatives – held for trading

A derivative is a financial instrument or other contract with all three of the following characteristics:
_ its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
_ it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
_ it is settled at a future date.

Derivative financial instruments are used by the Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by the Group include mainly interest rate swaps, futures, options, forward rate agreements, and cross currency swaps.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet, classified as financial instruments held for trading. They are reported in the line 'Derivatives' under the heading 'Financial assets/Financial liabilities held for trading'.
Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value (clean price) of derivatives held for trading are reported in the statement of profit or loss under the line 'Net trading and fair value result'. Interest income/expense related to derivatives is reported in the statement of profit or loss in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'.

						GROUP
	2020			2021		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**8,178**	**115**	**105**	**8,524**	**67**	**56**
Interest rate	2,066	42	33	1,628	30	20
Foreign exchange	6,112	73	72	6,896	37	36
Derivatives held in the banking book	**891**	**3**	**1**	**601**	**3**	**-**
Foreign exchange	891	3	1	601	3	-
Total	**9,069**	**118**	**106**	**9,125**	**70**	**56**

						BANK
	2020			2021		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**8,216**	**116**	**105**	**8,524**	**67**	**56**
Interest rate	2,066	43	33	1,628	30	20
Foreign exchange	6,150	73	72	6,896	37	36
Derivatives held in the banking book	**891**	**2**	**1**	**601**	**3**	**-**
Foreign exchange	891	2	1	601	3	-
Total	**9,107**	**118**	**106**	**9,125**	**70**	**56**

19. Other trading assets

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Debt securities	44	75	44	75
General governments	44	75	44	75
Other trading assets	**44**	**75**	**44**	**75**

19. Other trading assets (continued)

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.
As of 31 December 2020, financial assets held for trading are bonds issued by the Republic of Croatia with maturity in 2021, and with interest rate of 6.375%. As of 31 December 2021, financial assets held for trading are treasury bills issued by the Croatian Ministry of Finance with maturity in 2022, and with interest rate of 0.000%.

20. Non-trading financial assets at fair value through profit or loss

Financial assets mandatorily at FVPL

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Equity instruments	36	10	36	10
Debt securities	152	65	33	60
Other financial corporations	146	50	27	45
Non-financial corporations	6	15	6	15
Non-trading financial assets at fair value through profit or loss	**188**	**75**	**69**	**70**

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Non derivative financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:
_ The financial 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 financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income include debt instruments and equity instruments for which the Group has elected, at initial recognition, the fair value through other comprehensive income measurement.

The common attribute for investments in debt instruments at fair value through other comprehensive income is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise the fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities. On the balance sheet, they are included as ‘Debt securities’ under the line ‘Financial asset at fair value through other comprehensive income’.

For certain investments in equity instruments that are not held for trading, the Group makes use of the option to measure them at fair value through other comprehensive income. This election is applied to strategic, significant banking business relationship investments. On the balance sheet, they are included as ‘Equity instruments’ under the line ‘Financial asset at fair value through other comprehensive income’.
For recognition of gains and losses, resulting from subsequent measurement of financial assets measured at fair value through other comprehensive income, different rules apply depending on whether the financial instrument is debt or equity instrument:

Equity instruments
_ Changes in fair value (gains and losses) are recognised in other comprehensive income, and reported under the line ‘Fair value reserve of equity instruments’ of the statement of comprehensive income
_ Dividend income is recognised in profit or loss (unless the dividend clearly represents a recovery of part of the cost of investment), and reported under the line ‘Dividend income’ of the statement of profit or loss
_ Gains and losses resulting from foreign currency exchange differences are recognised in other comprehensive income and reported under the line ‘Fair value reserve of equity instruments’.

The accumulated fair value change recognised in other comprehensive income is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments, the amount accumulated in other comprehensive income is transferred to retained earnings.

Debt instruments

- Changes in fair value (gains and losses) are recognised in other comprehensive income, and reported under the line 'Fair value reserve of debt instruments' in the statement of comprehensive income
- Interest income is recognised in profit or loss, by using effective interest rate method, and reported in the line item 'Interest income' under 'Net interest income' in the statement of profit or loss
- Allowances for expected credit loss (gains and losses) are recognised in profit or loss against the accumulated impairment amount in other comprehensive income, and reported under the line 'Impairment result from financial instruments' in the statement of profit or loss
- Gains and losses resulting from foreign currency exchange differences are recognised, in accordance with the requirements of IAS 21, in profit or loss if they relate to the amortised cost part of the asset, reported under the line 'Net trading result and fair value result' and in other comprehensive income if they relate to other foreign currency exchange differences (fair value related), reported under the line 'Fair value reserve of debt instruments'

Upon derecognition, gains and losses previously recognised in other comprehensive income are reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

21. Financial assets at fair value through other comprehensive income

Equity instruments

The usage of the FVOCI option for equity instruments is subject to a separate approval process at Group level. Fair Value through Other Comprehensive Income (FVTOCI) is applied for investments which are not held for trading and in which the Group has a strategic interest. Strategic interest is evidenced by significant business and distribution ties between the Group investor entity and the investee entity and those other non-trading equity investments in non-consolidated entities that are acquired on a non-voluntary basis for example as a result of a regulatory debt-to-equity swap or as a result of an equity conversion of defaulted debt.

The carrying amount of equity instruments at FVOCI (fair value through other comprehensive income) as at 31 December 2021 amounts to HRK 4 million for the Group (2020: HRK 130 million) and HRK 4 million for the Bank (2020: HRK 114 million).
In 2021, decrease of equity instruments measured at fair value through other comprehensive income in comparison with 2020 is a result of derecognition due to sell of VISA C-common shares in amount of HRK 109 million.

Debt instruments

The analysis of gross carrying amounts (GCA) and of related credit loss allowances (CLA) of Group's debt securities at FVOCI per impairment buckets as of 31 December 2021 is provided below:

21. Financial assets at fair value through other comprehensive income (continued)

GROUP

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2021											
Debt securities	10,886	967	-	11,853	(28)	(53)	-	(81)	11,772	171	11,943
General governments	9,879	691	-	10,570	(7)	(32)	-	(39)	10,531	123	10,654
Credit institutions	749	-	-	749	(18)	-	-	(18)	731	23	754
Non-financial corporations	258	276	-	534	(3)	(21)	-	(24)	510	25	535
Total	**10,886**	**967**	**-**	**11,853**	**(28)**	**(53)**	**-**	**(81)**	**11,772**	**171**	**11,943**

GROUP

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2020											
Debt securities	9,828	1,068	-	10,896	(40)	(31)	-	(71)	10,825	323	11,148
General governments	8,843	1,068	-	9,911	(8)	(31)	-	(39)	9,872	262	10,134
Credit institutions	626	-	-	626	(17)	-	-	(17)	609	38	647
Non-financial corporations	359	-	-	359	(15)	-	-	(15)	344	23	367
Total	**9,828**	**1,068**	**-**	**10,896**	**(40)**	**(31)**	**-**	**(71)**	**10,825**	**323**	**11,148**

BANK

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2021											
Debt securities	10,383	967	-	11,350	(25)	(53)	-	(78)	11,272	172	11,444
General governments	9,375	691	-	10,066	(4)	(32)	-	(36)	10,030	124	10,154
Credit institutions	750	-	-	750	(18)	-	-	(18)	732	23	755
Non-financial corporations	258	276	-	534	(3)	(21)	-	(24)	510	25	535
Total	**10,383**	**967**	**-**	**11,350**	**(25)**	**(53)**	**-**	**(78)**	**11,272**	**172**	**11,444**

BANK

in HRK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Amortised cost	Accumulated OCI changes	Fair value
2020											
Debt securities	9,284	1,068	-	10,352	(37)	(31)	-	(68)	10,284	306	10,590
General governments	8,299	1,068	-	9,367	(5)	(31)	-	(36)	9,331	245	9,576
Credit institutions	626	-	-	626	(17)	-	-	(17)	609	38	647
Non-financial corporations	359	-	-	359	(15)	-	-	(15)	344	23	367
Total	**9,284**	**1,068**	**-**	**10,352**	**(37)**	**(31)**	**-**	**(68)**	**10,284**	**306**	**10,590**

21. Financial assets at fair value through other comprehensive income (continued)

The gross carrying amount of debt instruments at FVOCI equals the amortised cost before deducting any credit loss allowances. In accordance with IFRS9, for debt instruments classified into this category, other comprehensive income combines the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income.

There are no purchased or originated credit impaired (POCI) debt securities at FVOCI as of 31 December 2021 and 31 December 2020.

Debt securities include bonds issued by the Republic of Croatia and treasury bills issued by the Croatian Ministry of Finance.

Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 182, 364, 546 and 728 days.

During 2020, the average interest yields on HRK denominated treasury bills were 0.05% for treasury bills with a maturity of 182 days and 0.07% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were -0.03% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.06% for treasury bills with a maturity of 364 days.

During 2021, the average interest yields on HRK denominated treasury bills were 0.00% for treasury bills with a maturity of 182 days and 0.04% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were -0.06% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.01% for treasury bills with a maturity of 364 days.

Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2022 to 2030 and bear coupon interest from 0.875% to 6.500% p.a.

Bonds of Republic of Poland are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturity from 2023 to 2029 and bear coupon interest from 0,875% to 5,250% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity from 2025 to 2029 and bear coupon interest from 2.550% to 3.375% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturities from 2022 to 2036 and bear coupon interest from 0.000% to 4.375% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturities from 2023 to 2035 and bear coupon interest from 0.125% to 5.850% p.a. Bond of Republic of Latvia is a fixed income debt security denominated in EUR and listed on stock exchanges. That bond has the maturity in 2030 and bears coupon interest of 0.250% p.a. Bond of Republic of Ireland is a fixed income debt security denominated in EUR and listed on stock exchanges. That bond has the maturity in 2035 and bears coupon interest of 0.400% p.a. Bonds of United States of America are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturities from 2022 to 2031 and bear coupon interest from 0.750% to 3.125% p.a.
Also, in financial assets at fair value through other comprehensive income are bonds issued by European investment Bank with maturity from 2024 to 2025 and with coupon interest from 0.625 to 3.250% p.a., bond issued by EBRD denominated in USD with maturity in 2023 and bears coupon interest of 2.750% p.a.. bond issued by IBRD denominated in USD with maturity in 2024 and bears coupon interest of 1.500% p.a. and also bonds issued by KfW Bank denominated in USD with maturities from 2022 to 2025 and with coupon interest from 1.375% to 2.375% p.a.

Treasury bills of the Croatian Ministry of Finance with maturity in 2022, with interest rate of 0.000% HRK denominated are fixed income debt securities.

Financial assets at fair value through other comprehensive income are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

21. Financial assets at fair value through other comprehensive income (continued)

The movement in the credit loss allowances (CLA) for debt securities at FVOCI in the reporting period is provided in the table below:

GROUP							
in HRK million	As of Jan 2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2021
Stage 1	(40)	(1)	1	2	12	(2)	(28)
Stage 2	(31)	-	2	(17)	(7)	-	(53)
Stage 3	-	-	-	-	-	-	-
Total	**(71)**	**(1)**	**3**	**(15)**	**5**	**(2)**	**(81)**

GROUP							
in HRK million	As of Jan 2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2020
Stage 1	(26)	(7)	4	8	(21)	2	(40)
Stage 2	(8)	-	-	(29)	6	-	(31)
Stage 3	-	-	-	-	-	-	-
Total	**(34)**	**(7)**	**4**	**(21)**	**(15)**	**2**	**(71)**

BANK							
in HRK million	As of Jan 2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2021
Stage 1	(37)	(1)	1	2	12	(2)	(25)
Stage 2	(31)	-	2	(17)	(7)	-	(53)
Stage 3	-	-	-	-	-	-	-
Total	**(68)**	**(1)**	**3**	**(15)**	**5**	**(2)**	**(78)**

BANK							
in HRK million	As of Jan 2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of Dec 2020
Stage 1	(23)	(6)	3	8	(21)	2	(37)
Stage 2	(8)	-	-	(29)	6	-	(31)
Stage 3	-	-	-	-	-	-	-
Total	**(31)**	**(6)**	**3**	**(21)**	**(15)**	**2**	**(68)**

In column 'Additions' increases of CLA due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related FVOCI debt securities from Stage 1 (at 1 January 2021 or initial recognition date) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines at-tributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'.

The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

21. Financial assets at fair value through other comprehensive income (continued)

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages.

The year-end GCAs of FVOCI debt securities that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

Transfers between Stage 1 and Stage 2

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
To Stage 2 from Stage 1	1068	399	1068	399
To Stage 1 from Stage 2	61	432	61	432

The year-end GCA of the debt securities at FVOCI that were initialy recognized during year 2021 and not fully derecognized by 31 December 2021 amounts to 2,082 million for the Group and for the Bank (2020: HRK 3,066 million for the Group and HRK 2,955 million for the Bank).

The GCA of the debt securities at FVOCI that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to HRK 1,370 million for the Group and HRK 1,332 million for the Bank (2020: HRK 2,261 million for the Group and HRK 2,134 million for the Bank).

Financial instruments – other disclosure matters

22. Fair value of assets and liabilities

Fair values of financial instruments

The measurement of fair value at the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid Over-The-Counter (OTC) bonds.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found subsequently.

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

Description of the valuation models and inputs

The Group uses valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. In case of the negative interest environment the Group uses models which are able to deal sufficiently with the presented market conditions. Consequently, such negative interest rates do not restrict the valuation models.

Debt securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available, the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

Equity instruments

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity.

The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium. The levered beta is derived from the industry classification which is published and maintained by Damodaran.

22. Fair value of assets and liabilities (continued)

In some cases, techniques for non-trading equity instruments may also include comparable company multiple methods. These are valuation techniques that use prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets are valued by standard valuation models.

The Group values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances.

22. Fair value of assets and liabilities (continued)

According to the described methodology the amount of cumulative CVA-adjustment was HRK 1,859 thousand as at 31 December 2021 (2020: HRK 3,841 thousand) and the total amount of DVA-adjustment amount was HRK 1,382 thousand as at 31 December 2021 (2020: HRK 862 thousand).

Validation and control

The responsibility for valuation of a position measured at fair value is independent from trading units. Additionally, the Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value determination and validation. The target of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as a Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

Level 1 measurement includes shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available, the fair value is measured by using valuation models which are based on observable market data. If all significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurement includes OTC derivatives, less liquid shares, bonds, funds and own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations , typically credit spreads are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

Level 3 measurement includes shares, participations and funds not quoted in an active market, illiquid bonds.

22. Fair value of assets and liabilities (continued)

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

A reclassification from Level 1 into Level 2 or Level 3 and vice versa will be performed if the financial instruments no longer meet the criteria described above for the respective level.

The table below shows the classification of financial instruments carried at fair value with respect to levels of fair value hierarchy.

GROUP

	2020				2021			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	44	118	-	162	-	145	-	145
Derivatives	-	118	-	118	-	70	-	70
Other financial assets HFT	44	-	-	44	-	75	-	75
Non-trading financial assets – FVPL	153	-	35	188	27	-	48	75
Equity instruments	26	-	10	36	-	-	10	10
Debt securities	127	-	25	152	27	-	38	65
Financial assets – FVOCI	9,755	1,260	263	11,278	10,876	695	376	11,947
Equity instruments	-	2	128	130	-	-	4	4
Debt securities	9,755	1,258	135	11,148	10,876	695	372	11,943
Total assets	**9,952**	**1,378**	**298**	**11,628**	**10,903**	**840**	**424**	**12,167**
Liabilities								
Financial liabilities HFT	-	106	-	106	-	56	-	56
Derivatives	-	106	-	106	-	56	-	56
Total liabilities	**-**	**106**	**-**	**106**	**-**	**56**	**-**	**56**

BANK

	2020				2021			
in HRK million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	44	118	-	162	-	145	-	145
Derivatives	-	118	-	118	-	70	-	70
Other financial assets HFT	44	-	-	44	-	75	-	75
Non-trading financial assets – FVPL	34	-	35	69	22	-	48	70
Equity instruments	26	-	10	36	-	-	10	10
Debt securities	8	-	25	33	22	-	38	60
Financial assets – FVOCI	9,275	1,261	168	10,704	10,454	695	299	11,448
Equity instruments	-	3	111	114	-	-	4	4
Debt securities	9,275	1,258	57	10,590	10,454	695	295	11,444
Total assets	**9,353**	**1,379**	**203**	**10,935**	**10,476**	**840**	**347**	**11,663**
Liabilities								
Financial liabilities HFT	-	106	-	106	-	56	-	56
Derivatives	-	106	-	106	-	56	-	56
Total liabilities	**-**	**106**	**-**	**106**	**-**	**56**	**-**	**56**

22. Fair value of assets and liabilities (continued)

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorised as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment. Further details regarding input parameters used and the results of the sensitivity analysis are disclosed in the sub-chapter Unobservable inputs and sensitivity analysis for Level 3 measurements below.

Transfer of Level 1 and Level 2

These tables show the transfer of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

GROUP

In HRK million	2020 Transfer to Level 1	2020 Transfer to Level 2	2021 Transfer to Level 1	2021 Transfer to Level 2
Securities				
Transfer from Level 1	-	472	-	-
Transfer from Level 2	-	-	473	-
Transfer from Level 3	-	-	-	-
Purchases/sales/expiries	345	-	2,320	75
Total year-to-date change	**(127)**	**472**	**2,793**	**(398)**

BANK

In HRK million	2020 Transfer to Level 1	2020 Transfer to Level 2	2021 Transfer to Level 1	2021 Transfer to Level 2
Securities				
Transfer from Level 1	-	472	-	-
Transfer from Level 2	-	-	473	-
Transfer from Level 3	-	-	-	-
Purchases/sales/expiries	345	-	2,407	75
Total year-to-date change	**(127)**	**472**	**2,880**	**(398)**

22. Fair value of assets and liabilities (continued)

Movements in Level 3 of financial instruments carried at fair value

The following tables show the development of fair value of financial instruments for which valuation models are based on non-observable inputs:

GROUP

in HRK million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settlements	Currency translation	As of
	Jan 2021									Dec 2021
Assets										
Non-trading financial assets – FVPL	35	7	-	6	-	-	-	-	-	48
Equity instruments	10	(1)	-	1	-	-	-	-	-	10
Debt securities	25	8	-	5	-	-	-	-	-	38
Financial assets – FVOCI	263	(3)	6	-	(133)	268	(14)	(12)	1	376
Equity instruments	128	-	7	-	(133)	2	-	-	-	4
Debt securities	135	(3)	(1)	-	-	266	(14)	(12)	1	372
Total assets	**298**	**4**	**6**	**6**	**(133)**	**268**	**(14)**	**(12)**	**1**	**424**

GROUP

in HRK million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers out of Level 3	Settlements	Currency translation	As of
	Jan 2020								Dec 2020
Assets									
Non-trading financial assets – FVPL	46	(18)	-	35	(7)	(21)	-	-	35
Equity instruments	16	(6)	-	-	-	-	-	-	10
Debt securities	30	(12)	-	35	(7)	(21)	-	-	25
Financial assets – FVOCI	533	-	11	-	(12)	(116)	(154)	1	263
Equity instruments	162	-	10	-	-	(2)	(42)	-	128
Debt securities	371	-	1	-	(12)	(114)	(112)	1	135
Total assets	**579**	**(18)**	**11**	**35**	**(19)**	**(137)**	**(154)**	**1**	**298**

BANK

in HRK million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settlements	Merger	As of
	Jan 2021									Dec 2021
Assets										
Non-trading financial assets – FVPL	35	7	-	6	-	-	-	-	-	48
Equity instruments	10	(1)	-	1	-	-	-	-	-	10
Debt securities	25	8	-	5	-	-	-	-	-	38
Financial assets – FVOCI	168	(3)	9	-	(117)	268	(14)	(12)	-	299
Equity instruments	111	-	8	-	(117)	2	-	-	-	4
Debt securities	57	(3)	1	-	-	266	(14)	(12)	-	295
Total assets	**203**	**4**	**9**	**6**	**(117)**	**268**	**(14)**	**(12)**	**-**	**347**

22. Fair value of assets and liabilities (continued)

									BANK
in HRK million	**As of**	**Gain/(loss) in P&L**	**Gain/(loss) in OCI**	**Purchases**	**Sales**	**Transfers out of Level 3**	**Settle-ments**	**Merger**	**As of**
	Jan 2020								**Dec 2020**
Assets									
Non-trading financial assets – FVPL	17	(18)	-	35	(7)	(21)	-	29	35
Equity instruments	10	(6)	-	-	-	-	-	6	10
Debt securities	7	(12)	-	35	(7)	(21)	-	23	25
Financial assets – FVOCI	329	-	8	-	(13)	(2)	(154)	-	168
Equity instruments	147	-	8	-	-	(2)	(42)	-	111
Debt securities	182	-	-	-	(13)	-	(112)	-	57
Total assets	**346**	**(18)**	**8**	**35**	**(20)**	**(23)**	**(154)**	**29**	**203**

Unobservable inputs and sensitivity analysis for level 3 measurements

In case the fair value of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the Statement of Financial Position the parameters were chosen to reflect the market situation at the reporting date.

The range of unobservable valuation parameters used in level 3 measurements is shown in the following table:

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2021					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	103	Discounted cash flow	Credit spread	3.56% - 6.62% (4.40%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	6	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.07
				Country risk premium	Croatia 2.21%, Resulting cost of equity based on above input: 10.85%
		5	Market comparable companies	EV / SALES, EV / EBITDA, EV / EBIT, P/E, P/B, (P/S)	Depending on industry classification according to Bloomberg Industry classification standard.
31 December 2020					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	132	Discounted cash flow	Credit spread	1.63% - 6.52% (4.30%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	8	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 0.92
				Country risk premium	Croatia 4.45%, Resulting cost of equity based on above input: 11.49%
		1	Adjusted Net Asset Value	Adjusted Equity	Depending on accounting equity of investment.
		3	Market comparable companies	EV / SALES, EV / EBITDA, EV / EBIT, P/E, P/B, (P/S)	Depending on industry classification according to Bloomberg Industry classification standard.

22. Fair value of assets and liabilities (continued)

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2021					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	28	Discounted cash flow	Credit spread	6.62% (6.62%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	6	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.07
				Country risk premium	Croatia 2.21%, Resulting cost of equity based on above input: 10.85%
		5	Market comparable companies	EV / SALES, EV / EBITDA, EV / EBIT, P/E, P/B, (P/S)	Depending on industry classification according to Bloomberg Industry classification standard.
31 December 2020					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	56	Discounted cash flow	Credit spread	1.63% - 6.52% (5.29%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	8	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 0.92
				Country risk premium	Croatia 4.45%, Resulting cost of equity based on above input: 11.49%
		1	Adjusted Net Asset Value	Adjusted Equity	Depending on accounting equity of investment.
		3	Market comparable companies	EV / SALES, EV / EBITDA, EV / EBIT, P/E, P/B, (P/S)	Depending on industry classification according to Bloomberg Industry classification standard.

For the remaining debt securities in the amount of HRK 262 million classified at fair value through other comprehensive income in Level 3, fair value is retrieved from observable input.

In estimating sensitivity impacts, mainly changes in credit spreads for bonds were considered. The ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis for debt securities range of credit spreads between +100 basis points and - 75 basis points. Effect in other comprehensive income for positive fair value change is HRK 1.81 million and for negative HRK 2.81 million.

22. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value

The following table shows fair values and fair value hierarchy of financial instruments not measured at fair value for the year end 2021 and 2020.

					GROUP
2021	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	14,530	14,530	3,052	11,478	-
Financial assets at AC	59,328	60,042	4,955	-	55,087
Loans and advances to banks	4,406	4,436	-	-	4,436
Loans and advances to customers	49,987	50,651	-	-	50,651
Debt securities	4,935	4,955	4,955	-	-
Finance lease receivables	2,546	2,579	-	-	2,579
Trade and other receivables	1,270	1,286	-	-	1,286
LIABILITIES					
Financial liabilities measured at amortised costs	79,559	79,169	3,018	-	76,151
Deposits from banks	6,533	6,559	-	-	6,559
Deposits from customers	68,268	67,833	-	-	67,833
Debt securities issued	4,010	4,034	3,018	-	1,016
Other financial liabilities	748	743	-	-	743
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	(37)	-	-	(37)
Irrevocable commitments	-	15	-	-	15

					GROUP
2020	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	8,673	8,673	3,336	5,337	-
Financial assets at AC	56,154	53,962	1,939	473	51,550
Loans and advances to banks	4,041	4,039	-	-	4,039
Loans and advances to customers	49,752	47,511	-	-	47,511
Debt securities	2,361	2,412	1,939	473	-
Finance lease receivables	2,460	2,368	-	-	2,368
Trade and other receivables	1,143	1,092	-	-	1,092
LIABILITIES					
Financial liabilities measured at amortised costs	70,636	70,494	-	678	69,816
Deposits from banks	9,048	8,878	-	-	8,878
Deposits from customers	60,128	60,154	-	-	60,154
Debt securities issued	677	678	-	678	-
Other financial liabilities	783	784	-	-	784
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	195	-	-	195
Irrevocable commitments	-	-	-	-	-

22. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

					BANK
2021	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Cash and cash balances	13,518	13,518	2,831	10,687	-
Financial assets at AC	54,719	55,380	4,698	-	50,682
Loans and advances to banks	4,322	4,352	-	-	4,352
Loans and advances to customers	45,723	46,330	-	-	46,330
Debt securities	4,674	4,698	4,698	-	-
Trade and other receivables	692	701	-	-	701
LIABILITIES					
Financial liabilities measured at amortised costs					
Financial liabilities measured at amortised costs	72,378	72,000	3,018	-	68,982
Deposits from banks	3,242	3,255	-	-	3,255
Deposits from customers	64,927	64,513	-	-	64,513
Debt securities issued	4,010	4,034	3,018	-	1,016
Other financial liabilities	199	198	-	-	198
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	(33)	-	-	(33)
Irrevocable commitments	-	10	-	-	10

					BANK
2020	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
in HRK million					
ASSETS					
Cash and cash balances	7,947	7,947	3,095	4,852	-
Financial assets at AC	51,322	49,335	1,756	473	47,106
Loans and advances to banks	3,968	3,966	-	-	3,966
Loans and advances to customers	45,174	43,140	-	-	43,140
Debt securities	2,180	2,229	1,756	473	-
Trade and other receivables	596	569	-	-	569
LIABILITIES					
Financial liabilities measured at amortised costs	63,302	63,235	-	678	62,557
Deposits from banks	5,209	5,116	-	-	5,116
Deposits from customers	57,253	57,278	-	-	57,278
Debt securities issued	677	678	-	678	-
Other financial liabilities	163	163	-	-	163
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	171	-	-	171
Irrevocable commitments	-	3	-	-	3

Carrying amount for Financial guarantees and Irrevocable commitments represents amount of fee recognized in Statement of financial position which is represented under Trade and other receivables.

22. Fair value of assets and liabilities (continued)

The fair value of loans to and receivables from customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and receivables were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of debt securities at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spread. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortised cost is based on market prices or on observable market parameters, if these are available. For issued securities where fair value cannot be retrieved from quoted market prices, fair value is calculated by discounting the future cash flows. The applied discount rate is based on the interest rates at which instruments with comparable characteristics could have been issued at the balance sheet date. Moreover, optionality is taken into account when calculating the fair value.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated using the regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets.

23. Offsetting

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted under IFRS or for gain and losses arising from group of similar transactions such as in the Group's trading activity.

Financial assets subject to offsetting and potential offsetting agreements in 2021

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	70	-	70	(29)	-	-	41
Reverse repurchase agreements	412	-	412	-	-	(406)	6
Total	**482**	**-**	**482**	**(29)**	**-**	**(406)**	**47**

Financial liabilities subject to offsetting and potential offsetting agreements in 2021

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	56	-	56	(29)	(15)	-	12
Repurchase agreements	6	-	6	-	-	(6)	-
Total	**62**	**-**	**62**	**(29)**	**(15)**	**(6)**	**12**

Financial assets subject to offsetting and potential offsetting agreements in 2021

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	70	-	70	(29)	-	-	41
Reverse repurchase agreements	412	-	412	-	-	(406)	6
Total	**482**	**-**	**482**	**(29)**	**-**	**(406)**	**47**

Financial liabilities subject to offsetting and potential offsetting agreements in 2021

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	56	-	56	(29)	(15)	-	12
Repurchase agreements	6	-	6	-	-	(6)	-
Total	**62**	**-**	**62**	**(29)**	**(15)**	**(6)**	**12**

23. Offsetting (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2020

GROUP

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	118	-	118	(43)	-	-	75
Reverse repurchase agreements	782	-	782	-	-	(782)	-
Total	**900**	**-**	**900**	**(43)**	**-**	**(782)**	**75**

Financial liabilities subject to offsetting and potential offsetting agreements in 2020

GROUP

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	106	-	106	(43)	(51)	-	12
Repurchase agreements	738	-	738	-	-	(738)	-
Total	**844**	**-**	**844**	**(43)**	**(51)**	**(738)**	**12**

Financial assets subject to offsetting and potential offsetting agreements in 2020

BANK

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	118	-	118	(43)	-	-	75
Reverse repurchase agreements	821	-	821	-	-	(821)	-
Total	**939**	**-**	**939**	**(43)**	**-**	**(821)**	**75**

Financial liabilities subject to offsetting and potential offsetting agreements in 2020

BANK

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	106	-	106	(43)	(51)	-	12
Repurchase agreements	701	-	701	-	-	(701)	-
Total	**807**	**-**	**807**	**(43)**	**(51)**	**(701)**	**12**

23. Offsetting (continued)

The Bank uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities which would be set off as a result of master netting agreements are presented in the column ‘Financial instruments’.
Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a preagreed price and time. This ensures that the securities remain in hands of lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects resulting from repurchase agreements are presented in the column ‘Non-cash financial collateral received/pledged’ respectively. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge. For further details regarding repurchase and reverse repurchase transactions refer to Note 24 Transfers of financial assets – repurchase transactions and securities lending.

24. Transfers of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

A repurchase agreement is characterized by a sale and an obligation or right to repurchase the asset whereas the repurchase price has already been agreed at the time of contract conclusion.
Securities sold under an agreement to repurchase them at a specified future date are not derecognised from the balance sheet as the Group retains substantially all the risks and rewards of ownership.
The measurement category of financial asset transferred under the repurchase agreement does not change. The asset is presented separately under the original balance sheet item in the 'thereof pledged as collateral' lines.

The corresponding cash received is recognised on the balance sheet with a corresponding obligation to return it, under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group.
The difference between the sale and repurchase prices is accrued over the life of the agreement and recognised as interest expense in profit or loss, reported in the line item 'Interest expenses' under 'Net interest income' in the statement of profit or loss.
Any income (coupon or dividend payment) on the underlying security received by the buyer during the period of the repo transaction is passed on to the Group.

Conversely, securities purchased under agreements to resell them at a specified future date (reverse repurchase agreement) are not recognised on the balance sheet. The consideration paid is recognised on the balance sheet under the line item 'Financial assets at amortised cost', sub-items 'Loans and advances to banks' and 'Loans and advances to customers' reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale price is accrued over the life of the agreement and recognised as interest income, reported in the statement of profit or loss in the line item 'Interest income' under 'Net interest income'.

		GROUP		
in HRK million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2020		2021	
Repurchase agreements				
Financial assets at AC	785	701	-	-
Financial assets at FVOCI	85	37	6	6
Total – repurchase agreements	**870**	**738**	**6**	**6**

		BANK		
in HRK million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2020		2021	
Repurchase agreements				
Financial assets at AC	785	701	-	-
Financial assets at FVOCI	-	-	6	6
Total – repurchase agreements	**785**	**701**	**6**	**6**

The transferred financial instruments consist of bonds.

The total amount of HRK 6 million (2020: HRK 870 million) for the Group and HRK 6 million for the Bank (2020: HRK 785 million) represents the carrying amount of financial assets in the respective statement of financial position items for which the transferee has a right to sell or repledge. In 2021 for financial assets at FVOCI decrease is result of early repayment of structural repo received from CNB.

Liabilities from repo transactions, which are measured at amortised cost, in the amount of HRK 6 million in 2021 (2020: HRK 738 million) for the Group and HRK 6 million (2020: HRK 701 million) for the Bank represent an obligation to repay the borrowed funds.

24. Transfers of financial assets – repurchase transactions and securities lending (continued)

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only on the transferred assets. In the Group and the Bank, these assets and liabilities relate to repo transactions.

						GROUP
in HRK million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
		2020			2021	
Financial assets at AC	800	701	99	-	-	-
Financial assets at FVOCI	85	37	48	6	6	-
Total	**885**	**738**	**147**	**6**	**6**	**-**

						BANK
in HRK million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
		2020			2021	
Financial assets at AC	800	701	99	-	-	-
Financial assets at FVOCI	-	-	-	6	6	-
Total	**800**	**701**	**99**	**6**	**6**	**0**

25. Asset pledged as collateral

The following assets were pledged as collaterals:

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Financial assets at amortised cost	2,751	1,722	2,751	1,722
of which debt securities	816	36	816	36
Financial assets at FVOCI	85	6	-	6
Financial assets at FVPL	-	-	-	-
Non-trading financial asset at FVPL	-	-	-	-
Total	**2,836**	**1,728**	**2,751**	**1,728**

The financial assets pledged as collateral consist of bonds and loans.
Collaterals were pledged as a result of repo transactions and collateralised deposits.

The fair value of collateral received which may be repledged or resold even without the collateral provider's default was HRK 417 million for the Group and for the Bank (2020: HRK 806 million for the Group and HRK 848 million for the Bank)

26. Securities

GROUP

in HRK million	Financial assets At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total 2020	Financial assets At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total 2021
Bonds and other interest-bearing securities	**2,361**	**44**	**152**	**11,148**	**13,705**	**4,935**	**75**	**65**	**11,943**	**17,018**
Listed	2,361	44	4	11,094	13,503	4,935	75	19	11,903	16,932
Unlisted	-	-	148	54	202	-	-	46	40	86
Equity-related securities	**-**	**-**	**36**	**130**	**166**	**-**	**-**	**10**	**4**	**14**
Listed	-	-	26	-	26	-	-	-	-	-
Unlisted	-	-	10	130	140	-	-	10	4	14
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,361**	**44**	**188**	**11,278**	**13,871**	**4,935**	**75**	**75**	**11,947**	**17,032**

BANK

in HRK million	Financial assets At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total 2020	Financial assets At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total 2021
Bonds and other interest-bearing securities	**2,180**	**44**	**33**	**10,590**	**12,847**	**4,674**	**75**	**60**	**11,444**	**16,253**
Listed	2,180	44	-	10,536	12,760	4,674	75	14	11,404	16,167
Unlisted	-	-	33	54	87	-	-	46	40	86
Equity-related securities	**-**	**-**	**36**	**114**	**150**	**-**	**-**	**10**	**4**	**14**
Listed	-	-	26	-	26	-	-	-	-	-
Unlisted	-	-	10	114	124	-	-	10	4	14
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,180**	**44**	**69**	**10,704**	**12,997**	**4,674**	**75**	**70**	**11,448**	**16,267**

Investment funds units are reported within bonds and other interest bearing securities.

Securities lending and repurchase transactions are disclosed in Note 24. Transfers of financial assets-repurchase transactions and securities lending.

Risk management

27. Risk management

27.1) Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control systems have been developed to fulfil external and, in particular, regulatory requirements.

Given the Bank's business strategy, the key risks for the Bank are credit risk, market risk, liquidity risk, and operational risk. The Bank also focuses on managing macroeconomic risks as well as concentrations within and across risk types. In addition, the Bank's control and risk management framework takes into account a range of other significant risks faced by the banking Group. The Bank always seeks to enhance and complement existing methods and processes, in all areas of risk management.

27.2) Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The following chart presents an overview of the Bank's risk management, risk governance and responsibilities.

27.2) Risk management organisation (continued)

Overview of risk management structure

The Management Board, and in particular the Bank's Chief Risk Officer (CRO), must perform its oversight function within the Bank's risk management structure. Risk control and management functions within the Bank are performed based on the business and risk appetite approved by the Management Board. The CRO is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

The Management Board and in particular, the CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect. The actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within the Bank.

The Management Board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities.

The following risk management functions report directly to the CRO:

- Credit Risk Management Division
- Risk Management Division
- Non-Financial Risk Division
- Corporate Security Division

Corporate Credit Risk Management Department

The Corporate Risk Management Department within the Credit Risk Management Division implements credit risk management and monitors the balance of credit portfolios of clients that are categorized as belonging to the SME Division, Large Corporate Division, and according to the responsibilities set out in the relevant acts.

The Department analyses credit applications and based on them, issues opinion on the credit risk from the risk perspective. It analyses the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's/Groups overall exposure to the client/group of connected customers, monitors early warning signals and controls early collection.

According to financial statements the Department prepares financial rating of a client as one of the components of final rating grade of a client.

Retail Credit Risk Management Department

Retail Risk Management Department within the Credit Risk Management Division manages credit risk and monitors the credit portfolio balance of clients from the Retail Sector. The Department analyses requests for credits and issues an opinion on them from the risk perspective. It performs an analysis of the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client.

The Department follows group standards within its scope, coordinates and creates local policies and procedures and monitors their fulfilment. The Department is through responsible, for carrying out the activities of early collection of clients in its jurisdiction as well as review of portfolio quality, and in accordance with relevant acts.

Credit Risk Monitoring Department

Credit risk monitoring Department within the Credit Risk Management Division maintains and improves the credit process and its tools and applications for approving and monitoring of credit applications and as well as monitoring of overall exposure on product, client or portfolio level. The Department is responsible for defining rules for approval of credit exposure, approval and deviation analysis, approval competences, covenant monitoring, also maintenance and improvement of early warning signals system, set up and monitoring of limit utilization, system and rules for onboarding procedure of group of connected clients, early and late collection system.

27.2) Risk management organisation (continued)

The Department follows group and regulatory standards within its scope of credit risk in corporate, retail and workout processes, initiates, coordinates and creates local policies and procedures and monitors their fulfilment in Bank and its subsidiaries. Also, the Department analyses portfolio and creates reports primarily for internal purposes.

Corporate Workout Department and Retail Work-out Department

Corporate Workout Department and Retail Work-out Department within the Credit Risk Management Division, which follow the business lines in the sales sectors, are in charge of managing and collection of non performing exposure by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients. They define appropriate collection strategies toward cliens or selected portfolios through distress restructurings or late collection process including litigation, pre-bancruptcy and bankruptcy proceedings, debt sale, debt settlements, write-offs or collection through repossessed asset. In line with expected collection and given methodology are responsible for Stage 3 provision calculation.

Risk Strategy and Reporting Department

The Risk Strategy and Reporting Department within the Risk Management Division takes part in the process of planning the activities of the Group and the Bank from the risk management point of view. It monitors the execution of risk management-related planned and strategically determined goals and plans, both of the Group and the Bank.

The Department monitors risk-related regulatory changes and group standards, initiates, coordinates and creates policies and other procedure, and monitors their fulfilment, all within its scope of activities prescribed by other acts. and also performs the analysis of the structure and quality of portfolios, and prepares reports on the structure and quality of portfolios. It proposes guidelines for the optimization of accepted risks, in order to improve certain asset classes, rating and collateral.
The Department also executes and creates reports related to credit risk with the prescribed dynamics, in compliance with legal regulations and standards of the Group and the Bank.
The Risk Strategy and Reporting Department, together with other departments and Bank organizational units, actively participates in the process of managing data quality and evaluating the adequacy of internal control systems.
The Collateral Management Team adopts policies and procedures that define collateral acceptability and valuation standards and oversee their implementation.

Quantitative Research Department

Quantitative Research Department (QRD) within the Risk Management Division is responsible for implementation of Basel standards, regulatory requirements and guidelines, as well as Erste Group standards with respect to internal rating based approach for calculation of capital requirements for credit risk and enterprise-wide risk management.

QRD introduces, coordinates the development and participates in development, implementation and monitoring of different types of quantitative models as well as calculation of credit risk parameters which are used for measurement, segmentation and management of credit risks in line with best practice and group standards as well as implementation in the Bank’s processes (including constant enhancement of business processes connected with above mentioned calculations). This includes IRB models and IFRS9 methodology QRD is responsible for efficiency of implemented models and performs calibration and participates in calibration of models in line with Erste Group principles and participates in validation of the same in collaboration with Erste Group. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and Bank business as a whole.

QRD strives to achieve holistic approach in managing risks through enterprise-wide risk management. By defining risk strategy and Risk Appetite Statement which includes all risk departments, a framework for responsible and prudent risk taking is ensured. Enterprise-wide risk management encompasses Internal Capital Adequacy Assessment Process (ICAAP) which includes the identification of risks to which the Bank/EBC Group is exposed or might be exposed in the future and the assessment of economic capital adequacy. Identification of risks is performed through risk materiality assessment, concentration risk analysis and stress testing. Material risks are managed through calculation of regulatory and internal capital requirements and through the limit and control systems. QRD calculates the economic capital adequacy on a quarterly basis, i.e. coverage of internal capital requirements, for relevant risks, with internal capital. In addition, through enterprise-wide risk management QRD plans and manages the risk weighted assets, and participates in determination of price for different products using Expected Risk Margin (ERM) and cost of capital, participates in the process of profitability modelling, business model development and risk cost planning.

27.2) Risk management organisation (continued)

Quantitative Research Department (continued)

QRD is also responsible for the creation of the Recovery and Resolution Plan of EBC Group and participates in capital management within its field of responsibility.

Market and Liquidity Risk Management Department

Market and Liquidity Risk Management Department within the Risk Management Division, within the scope of its authority, performs all tasks necessary for market and liquidity risk management in compliance with the rulebooks and procedures related to its scope of authority.

It performs the analysis of the complex market situation, identifies and measures both market and liquidity risks and their parameters. Apart from the above-mentioned activities, the Department is also in charge of the implementation of the Basel II guidelines; it establishes measures for the reduction of risks within the scope of its authority and participates in the process of approving new products of the Financial Markets and Investment Banking Division. It also collaborates with other organizational units with the purpose of improving the quality of market and liquidity risk management.

Operational Risk Management Group

In operational risk management area, Operational Risk Management Group within Non-Financial Risk Division aims to control all organizational units and business processes within the Bank, having in mind that operational risk is characteristic to all activities, processes, products and Bank’s systems based on defined Bank’s risk profile, particularities of business environment and regulatory requests. It collaborates with other organizational units with the purpose of improvement the quality of managing operational risk.

Corporate Security Division

Corporate Security Division is in charge of conducting of tasks related to the security, adequate managing of information system and risk of information system, managing of continuity of operations and crisis management according to Group standards and local policies and standards.

The main objectives of the Division are development and implementation of a security of information system architecture, determination of security objectives in accordance with the Bank's information system strategy, information security policy management, standards, guidelines and other internal acts with a view to achieving and maintaining a satisfactory level of security.
The Division also continuously improves the corporate security incident management system as well as the implementation of new methodologies, tools and technologies to meet all the regulatory requirements and security standards required for the Bank's smoothly managed business. Division also in charge of reports on state of Bank security which are sent to the Management Board and the Supervisory Board.

27.2) Risk management organisation (continued)

Furthermore, the Division's objectives are proactive and reactive work on technical, mechanical and physical protection systems, fire protection and occupational safety, security education and awareness raising of the Bank's employees. In addition, it takes care of the legality of processing personal data in the sense of respecting the Personal Data Protection Act and other regulations related to personal data processing and warns of the necessity of applying regulations on the protection of personal data in cases of actions that may have an impact on privacy and data protection.

27.3) Group-wide risk management

Overview
As in prior years, Enterprise-wide Risk Management (ERM) within Quantitative research department has continued to strengthen its comprehensive framework which includes improvements in Internal Capital Adequacy Process (ICAAP).

The ERM framework is designed to support the bank’s management in managing the risk portfolios as well as coverage potential (internal capital) to assure adequate capital reflecting the nature and magnitude of the Bank’s/EBC Group’s risk profile. ERM is tailored to the business and risk profile of the Bank, and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the Bank/EBC Group. Prudential risk management is ensured by identification, quantification, aggregation and successful management of all material risk types.

ERM is a modular and comprehensive management and steering system and is integral to the Bank and Group’s overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

_ Risk appetite statement,
_ Portfolio and risk analysis through Risk materiality assessment, Concentration risk management and Stress testing,
_ Risk-bearing capacity calculation,
_ Risk planning and management through Risk-weighted assets management and capital allocation and
_ Recovery and resolution planning.

In addition, ERM department participates in the Capital Management Team with a purpose to maintain the appropriate quantity and quality of capital to support planned operations, while at the same time ensuring that regulatory requirements as well as investors’ and stakeholders expectations are fully met. Capital is managed to maintain financial strength, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet risk management and business objectives.

In addition to the ICAAP’s ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the Bank’s/EBC Group’s management in pursuing its strategy.

27.3) Group-wide risk management (continued)

Risk Appetite Statement (RAS)

The EBC Group Risk Appetite Statement (RAS) represents a strategic statement that expresses the maximum level of risk that the EBC Group is willing to accept in order to deliver its business objectives. The RAS acts as a meaningful and binding constraint to business activities within its overall risk appetite through triggers approved by the Management Board. The RAS represents a board-level strategic statement, also serving as a starting point for the implementation of the risk limit framework and is a key component of the EBC Group's ICAAP.

The EBC Group RAS:

_ Consists of a set of core risk metrics that provide quantitative direction for the overall risk-return steering,
_ Provides qualitative statements in the form of key risk principles that form part of guidelines for managing risks,
_ Sets the boundary for limits (strategic and operational) and target setting, and
_ Forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.

Portfolio and risk analytics

The EBC Group/Bank actively identifies, quantifies, monitors and manages risks within its portfolio.

The **risk materiality assessment** (RMA) determines the materiality of risk types and consequently the risk profile across the Bank and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing risks for EBC Group. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the EBC Group. The assessment also serves as an input for the design and definition of the Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

The Bank has also implemented a process to identify, measure, control, and to manage concentration risk. This process is essential to ensure the long-term viability of the Bank, especially in times of adverse business environment and stressed economic conditions. The concentration risk analysis covers credit risk, market risk, operational risk,liquidity risk and and inter-risk concentrations.

Stress testing and modelling risks represent key, forward-looking elements of ICAAP. Modelling sensitivity of the assets, liabilities and profit or loss and helps in optimising the risk-return profile. Stress testing takes into account severe but plausible scenarios that enrich measuring and risk management system. Comprehensive stress test results are considered in the risk-bearing capacity calculation and the levels of core indicators under stressed conditions are compared to the limits and targets set in the Risk Appetite Statement.

In order to calculate the effect of a given stress scenario on profit and loss and capital adequacy, internally developed model is used to translate macroeconomic variables into risk parameters.

Risk-bearing Capacity Calculation

In contrast to the regulatory view of Pillar 1, the Risk-bearing Capacity Calculation (RCC) is based on an economic view and determines whether the bank has sufficient capital for covering all risks it is exposed to. This calculation is a cornerstone of the ICAAP as required under Pillar 2 of the Basel III framework. The aim is to identify, measure, aggregate and manage EBC Group's overall risk profile, to report the economic capital adequacy (ECA) and to provide a basis for the allocation of consumed capital.

27.3) Group-wide risk management (continued)

In addition to Pillar 1 risk types (credit, market and operational risks), in the context of Pillar II, other risk types are also considered within the required economic capital through internal models (e.g. interest rate risk in the banking book, FX induced credit risk for retail, business risk) or via stress test (e.g. residual risk, macroeconomic risk etc.).

Management Board and Supervisory Board are reported on capital adequacy on a quarterly basis. The traffic light system embedded in the RCC helps to alert the management in case there is a need to plan and execute actions to either replenish the capital base or to take measures for reducing the risk.

Risk planning and forecasting

The responsibility for risk management within the Bank includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the Bank's and Group's overall planning process, and in particular with Controlling, Asset Liability Management and the business lines. The risk planning and forecasting process includes both a forward and backward-looking component, focusing on both portfolio and economic environment changes.

Risk parameters and rating models

The Bank has successfully completed the development of the new PD methodology during 2018 and implemented the new parameters at the end of 2019 for the purpose of RWA calculation. The parameters update, in line with the new PD methodology, was performed in November 2021. New LGD methodology and CCF methodology has also finnished. Development of new rating models for Retail-SME, corporate-SME clients and Group Corporate and Group Large Corporates are finalized and applied to the regulator. The implementation is expected in 2022.

Risk-weighted asset management

As risk weighted assets determine the actual regulatory capital requirement of the Bank/EBC Group and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targeted levels of RWA. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data, as well as the most efficient application of the Basel framework. The Bank has established a process of tracking, planning and defining target levels of RWA. The Bank's Management Board is regularly informed on the levels of RWA and adherence to the limits set within the Risk Appetite Statement (RAS).

Capital allocation

An important task integral to the risk planning process is the allocation of capital to EBC entities, business lines and segments. This is done via close cooperation between local Enterprise-wide Risk Management, Group Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Leverage ratio

The leverage ratio represents the relationship between core capital (Tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on and off balance sheet positions considering valuation and risk adjustments as defined within the CRR. Management Board is informed on the level of leverage ratio for the Bank and EBC Group and on the adherence to defined limits and targets within the Risk Appetite Statement on a quarterly basis.

Recovery plan

The Bank was required to draw up the Recovery Plan of EBC Group as an annex of the Erste Group Recovery plan. The Recovery Plan identifies options for restoring financial strength and viability in case EBC Group comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress (in 2020 one COVID-19 scenario was requested by ECB). The recovery governance described in the plan ensures timely identification and proper management of any recovery situation. Furthermore, the assessment of the Recovery Plan and the recently addressed assessment of the overall recovery capacity are part of the Supervisory Review and Evaluation Process (SREP) assessment. It is relevant to demonstrate that, in a severe stress which is close to a failing or likely to fail situation, there is sufficient recovery capacity available.
Finally, the updated version of the Recovery plan was provided to the regulator as an annex of the Group plan.

27.3) Group-wide risk management (continued)

Erste Group collaborates with the resolution authorities in the drawing up of resolution plans based on BaSAG and EU Regulation No 806/2014 establishing the Single Resolution Mechanism (SRM Regulation). Based on a joint decision taken in the Resolution College, Erste Group in April 2020 received notification of the preferred Multiple Point of Entry (MPE) resolution strategy on cross-country level, but a Single Point of Entry (SPE) resolution strategy within a country. This results in being MPE in Austria, the Czech Republic, Croatia, Hungary, Romania and Slovakia.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL), which is – in case of Erste due to the MPE resolution strategy – set on Croatia Resolution Group level.

BRRD and SRMR require that all entities in scope must fulfil their MREL requirements on fully loaded basis from 01.01.2024. Until then, BRRD and SRMR foresee a linear build-up of eligible liabilities with the following intermediate MREL targets: intermediate binding target to be met from 1.1.2022 and intermediate informative target to be met from 1.1.2023. For entities with no MREL shortfall (on fully loaded basis) as of the calibration date, the two intermediate targets above are set equal to the fully loaded MREL target to be met from 01.01.2024.
MREL is expressed as percentage (%) from Risk Weighted Asset of the Croatian Resolution Group. Responsible for the fulfilment of the MREL target at the level of the RH RG is the resolution entity, namely Erste & Steiermärkische Bank d.d. The respective RWA-based MREL Target (defined as percentage) will be re-calibrated each year by SRB and thus be updated on a rolling 12-month to 15-month basis.

27.4) Credit risk

Definition and overview

Credit risk arises in the Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and expected credit losses (ECL) of non-defaulted borrowers calculated as 12-months ECL (Stage 1) or calculated as lifetime expected credit losses (Stage 2).
Operative credit decisions are made by the responsible credit risk management units.
With the goal of good risk management, all data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into central database used for credit risk management, while quality of data is regularly controlled.
Therefore, departments within Risk Management regularly use this database for credit risk reporting thereby providing centralised analysis and application of ratios according to unified methods and segmentation across the Bank and Group as a whole. The credit risk reporting comprises regular reports on credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory and Management Board as well as risk managers, business unit directors and internal audit staff.

Internal rating system

Overview
The Bank has in place business and risk strategies, as well as policies for lending and credit approval processes that are reviewed and adjusted regularly, at minimum on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.
The assessment of counterparty default risk within the Bank is based on the customer's Probability of Default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated at least on an annual basis (annual rating review). Ratings of customers in weaker rating classes are reviewed with higher frequency.

Besides setting of the capital requirements the main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk allowances.

27.4) Credit risk (continued)

As mentioned above, internal ratings are the key element of the RWA calculation which is also used in the assessment of economic capital requirement according to Pillar 2 (ICAAP). PD values reflect the 12-month probability of default based on long-term average default rates. The Bank assigns margins of conservatism to the calculated PD depending on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support and other company information. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity.

All scorecards, both retail and non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are conducted using statistical techniques and the results of this validation process are reported to the management and regulatory bodies.
The Bank complies with all Erste Group standards with respect to model development and maintenance process. All new models and modifications of existing models in the Group (rating models and risk parameters), as well as methodology standards, are reviewed by the respective organizational unit of Erste Holding which ensures Group-wide integrity and consistency of models and methodologies. Models are approved by Local Modelling Committee.

Risk grades and categories
The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8 risk grades (for private individuals) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade.
For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: customers with well-established and rather long-standing relationships with the Bank and the Group or large internationally recognised customers. Clients with strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: customers that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders.

Substandard: customers which are vulnerable to negative financial and economic developments.

Non-performing: customers who meet one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, which are precisely defined by the Bank's internal documentation: full repayment unlikely, more than 90 days past due on a material exposure, restructuring resulting in a loss to the lender, realisation of a loan loss or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Bank applies the customer view for all customer segments, including Retail clients; if a customer defaults on one deal then the entire customer's performing transactions are classified as non-performing.

Erste Bank rating category	Agencies	Internal
Low Risk	Aaa/AAA … Ba3/BB-	1, 2, 3, 4a, 4b, 4c, 5a, 5b, 5c, A1, A2, B1, B2
Management Attention	B1/B+ … B3/B-	6a, 6b, 7, C1, C2, D1, N
Substandard	Caa1 … CC	8, D2
Non-Performing	C, D	R

27.4) Credit risk (continued)

Credit risk review and monitoring

Credit monitoring
In order to manage credit risk timely, regular analysis of client's risks which includes current rating status, repayment ability, revision of collaterals and compliance with the contracted terms, repayment and other clauses through re-approvals is performed.
The Bank's goal is to timely recognize any decrease in the quality of credit portfolio which may have material losses for the Bank. The Bank through a re-approval process analyses a complete status of the debtor. The meaning of regular re-approval of credit exposures is an active follow-up on client and portfolio quality and it represents an additional measure of optimisation of credit risk exposure of the Bank.
The Bank performs evaluation of creditworthiness based on all information on client, also taking into consideration prior credit relationships between the Bank and the client.

Early detection of increased risk level
The Bank applies methods of early detection of increased credit risk level in order to make collection more successful even in the case of decrease in credit worthiness and decrease in the quality of credit portfolio. An increased level of credit risk on the level of respective client and portfolio is detected by following all relevant information and foreseen change of variables in the future period which primarily includes client's prior behaviour in obligations repayment and following market information. Therefore, increased level of credit risk is on the level of the Bank timely detected by following:
_ Market conditions,
_ Rating changes,
_ Delays.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:
_ Other demand deposits to credit institutions;
_ Debt instruments held for trading;
_ Non-trading debt instruments at fair value through profit or loss (FVPL);
_ Debt instruments at fair value through other comprehensive income (FVOCI);
_ Debt instruments at amortised cost (AC),
_ Trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
_ Debt instruments held for sale in disposal groups;
_ Finance lease receivables;
_ Positive fair value of derivatives;
_ Off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:
_ account loan loss allowances;
_ provisions for guarantees;
_ any collateral held (including risk transfer to guarantors);
_ netting effects;
_ other credit enhancements;
_ credit risk mitigating transactions.

The following tables show the reconciliation between the gross carrying amount and the net carrying amount of the separate components of the Group's and the Bank's credit risk exposure as at 31 December 2021 and 31 December 2020.

27.4) Credit risk (continued)

Reconciliation between the gross carrying amount and the net carrying amount of the credit risk exposure components

	GROUP				BANK			
in HRK million	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2021								
Other demand deposits to credit institutions	442	-	-	442	110	-	-	110
Debt instruments held for trading	145	-	-	145	145	-	-	145
Non-trading debt instruments at FVPL	65	-	-	65	60	-	-	60
Debt securities	65	-	-	65	60	-	-	60
Debt instruments at FVOCI	11,853	(81)	90	11,943	11,350	(78)	94	11,444
Debt securities	11,853	(81)	90	11,943	11,350	(78)	94	11,444
Debt instruments at AC	62,278	(2,950)	-	59,328	57,321	(2,602)	0	54,719
Debt securities	4,940	(5)	-	4,935	4,676	(2)	-	4,674
Loans and advances to banks	4,410	(4)	-	4,406	4,325	(3)	-	4,322
Loans and advances to customers	52,928	(2,941)	-	49,987	48,320	(2,597)	-	45,723
Trade and other receivables	1,459	(189)	-	1,270	773	(81)	-	692
Finance lease receivables	2,604	(58)	-	2,546	-	-	-	-
Off balance-sheet exposures	11,095	(168)	-	11,095	9,297	(158)	-	9,297
Total	**89,941**	**(3,446)**	**90**	**86,834**	**79,056**	**(2,919)**	**94**	**76,467**

	GROUP				BANK			
in HRK million	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2020								
Other demand deposits to credit institutions	381	-	-	381	89	-	-	89
Debt instruments held for trading	162	-	-	162	162	-	-	162
Non-trading debt instruments at FVPL	152	-	-	152	33	-	-	33
Debt securities	152	-	-	152	33	-	-	33
Debt instruments at FVOCI	10,896	(71)	252	11,148	10,352	(68)	238	10,590
Debt securities	10,896	(71)	252	11,148	10,352	(68)	238	10,590
Debt instruments at AC	59,313	(3,159)	-	56,154	54,156	(2,834)	-	51,322
Debt securities	2,363	(2)	-	2,361	2,181	(1)	-	2,180
Loans and advances to banks	4,051	(10)	-	4,041	3,978	(10)	-	3,968
Loans and advances to customers	52,899	(3,147)	-	49,752	47,997	(2,823)	-	45,174
Trade and other receivables	1,367	(224)	-	1,143	684	(88)	-	596
Finance lease receivables	2,512	(52)	-	2,460	-	-	-	-
Off balance-sheet exposures	11,221	(150)	-	11,221	8,120	(131)	-	8,120
Total	**86,004**	**(3,656)**	**252**	**82,821**	**73,596**	**(3,121)**	**238**	**70,912**

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:
_ exposure class and financial instrument;
_ industry and IFRS 9 treatment;
_ region and risk category;
_ business segment and risk category.

27.4) Credit risk (continued)

Subsequently credit risk exposure is categorized by geographical segment and risk category and geographical segment and IFRS 9 treatment.
After that credit risk is categorized in the following way:
_ non-performing credit risk exposure by business segment and credit loss allowances;
_ credit risk exposure, forbearance exposure, and credit loss allowances;
_ financial instrument and collateral;
_ credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
_ credit risk exposure past due and not impaired by financial instrument and collateralisation.

Contingent liabilities / Off balance-sheet exposures by product

	GROUP		BANK	
	2020	2021	2020	2021
Financial guarantees	3,702	4,933	3,248	4,413
Loan commitments	7,519	6,162	4,872	4,884
Other commitments	2,765	3,262	2,545	3,071
Total	**13,986**	**14,357**	**10,665**	**12,368**

27.4) Credit risk (continued)

Credit risk exposure by industry and IFRS 9 treatment

							GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2021							
Agriculture and forestry	1,405	131	99	-	1,635	-	1,635
Mining	108	8	-	-	116	-	116
Manufacturing	5,201	461	343	45	6,050	2	6,052
Energy	894	25	10	-	929	7	936
Water supply	766	793	2	-	1,561	-	1,561
Construction	5,896	314	163	4	6,377	2	6,379
Trade	4,450	425	220	45	5,140	-	5,140
Transport	1,912	445	76	7	2,440	-	2,440
Hotels and restaurants	1,308	3,310	274	58	4,950	2	4,952
Communication	666	50	22	0	738	-	738
Financial and insurance services	6,935	9	2	0	6,946	120	7,066
Real estate	1,617	157	26	41	1,841	2	1,843
Professional activities	1,375	306	45	5	1,731	-	1,731
Administrative and support service activities	473	287	97	1	858	-	858
Public administration	20,665	1,464	-	-	22,129	75	22,204
Education	47	8	1	-	56	-	56
Health services	605	24	38	-	667	-	667
Art	475	289	4	-	768	-	768
Private households	20,167	2,939	1,529	5	24,640	-	24,640
Other	144	12	3	-	159	-	159
Total	**75,109**	**11,457**	**2,954**	**211**	**89,731**	**210**	**89,941**

							GROUP
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2020							
Agriculture and forestry	1,062	343	123	-	1,528	-	1,528
Mining	149	4	11	-	164	-	164
Manufacturing	3,671	852	544	62	5,129	3	5,132
Energy	822	69	9	8	908	13	921
Water supply	762	4	2	-	768	-	768
Construction	5,292	212	345	4	5,853	5	5,858
Trade	4,398	910	321	50	5,679	115	5,794
Transport	2,002	533	81	2	2,618	11	2,629
Hotels and restaurants	1,799	2,525	282	33	4,639	5	4,644
Communication	410	83	5	-	498	-	498
Financial and insurance services	5,969	22	3	-	5,994	109	6,103
Real estate	2,032	229	65	-	2,326	6	2,332
Professional activities	1,413	338	111	5	1,867	3	1,870
Administrative and support service activities	470	360	72	-	902	-	902
Public administration	18,118	1,229	-	-	19,347	44	19,391
Education	59	6	1	-	66	-	66
Health services	618	45	2	-	665	-	665
Art	418	109	4	-	531	-	531
Private households	22,099	2,050	1,869	4	26,022	-	26,022
Other	158	23	5	0	186	-	186
Total	**71,721**	**9,946**	**3,855**	**168**	**85,690**	**314**	**86,004**

27.4) Credit risk (continued)

Credit risk exposure by industry and IFRS 9 treatment (continued)

BANK

in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2021							
Agriculture and forestry	1,317	120	95	-	1,532	-	1,532
Mining	97	7	-	-	104	-	104
Manufacturing	4,843	372	334	45	5,594	2	5,596
Energy	891	8	10	-	909	7	916
Water supply	638	793	2	-	1,433	-	1,433
Construction	5,600	248	145	4	5,997	1	5,998
Trade	2,912	274	158	45	3,389	-	3,389
Transport	1,585	318	30	7	1,940	-	1,940
Hotels and restaurants	1,230	3,092	234	58	4,614	2	4,616
Communication	519	39	22	-	580	0	580
Financial and insurance services	6,539	7	2	-	6,548	115	6,663
Real estate	1,582	137	26	40	1,785	2	1,787
Professional activities	1,248	242	42	5	1,537	-	1,537
Administrative and support service activities	266	116	69	1	452	-	452
Public administration	19,587	1,463	-	-	21,050	76	21,126
Education	39	6	1	-	46	-	46
Health services	534	19	7	-	560	-	560
Art	465	219	4	-	688	-	688
Private households	16,093	2,597	1,255	6	19,951	-	19,951
Other	125	14	3	-	142	-	142
Total	**66,110**	**10,091**	**2,439**	**211**	**78,851**	**205**	**79,056**

BANK

in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2020							
Agriculture and forestry	981	335	121	-	1,437	-	1,437
Mining	138	4	11	-	153	-	153
Manufacturing	3,384	804	531	62	4,781	3	4,784
Energy	805	25	9	8	847	13	860
Water supply	629	3	2	-	634	-	634
Construction	4,997	147	315	4	5,463	6	5,469
Trade	3,008	686	245	50	3,989	-	3,989
Transport	1,701	376	50	2	2,129	11	2,140
Hotels and restaurants	1,697	2,299	243	33	4,272	5	4,277
Communication	277	69	5	-	351	-	351
Financial and insurance services	5,657	4	2	-	5,663	105	5,768
Real estate	1,986	217	65	-	2,268	6	2,274
Professional activities	1,340	257	106	5	1,708	2	1,710
Administrative and support service activities	276	132	54	-	462	-	462
Public administration	17,067	1,201	0	-	18,268	44	18,312
Education	52	4	0	-	56	-	56
Health services	573	13	1	-	587	-	587
Art	410	99	4	-	513	-	513
Private households	16,476	1,653	1,520	4	19,653	-	19,653
Other	145	18	4	-	167	-	167
Total	**61,599**	**8,346**	**3,288**	**168**	**73,401**	**195**	**73,596**

27.4) Credit risk (continued)

Credit risk exposure by region and risk category
The following table presents the credit risk exposure of the Group and the Bank divided by region and risk category as at 31 December 2021 and 31 December 2020.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2021					
Erste Group markets	**70,707**	**5,127**	**884**	**2,872**	**79,590**
Austria	548	3	-	1	552
Croatia	68,721	5,121	884	2,870	77,596
Serbia	6	3	-	1	10
Slovakia	1,413	-	-	-	1,413
Czech Republic	15	-	-	-	15
Hungary	4	-	-	-	4
Other EU countries	**3,884**	**16**	**17**	**2**	**3,919**
Other industrialised countries	**517**	**3**	**0**	**5**	**525**
Emerging markets	**2,886**	**2,544**	**206**	**271**	**5,907**
Southeastern Europe/CIS	2,780	2,540	206	271	5,797
Asia	102	1	-	-	103
Latin Amerika	-	-	-	-	-
Middle East/Africa	4	3	-	-	7
Total	**77,994**	**7,690**	**1,107**	**3,150**	**89,941**
2020					
Erste Group markets	**64,649**	**5,624**	**808**	**3,753**	**74,834**
Austria	332	3	-	1	336
Croatia	63,247	5,614	808	3,751	73,420
Serbia	5	4	-	1	10
Slovakia	1,057	-	-	-	1,057
Czech Republic	7	-	-	-	7
Hungary	1	3	-	-	4
Other EU countries	**4,837**	**351**	**28**	**25**	**5,241**
Other industrialised countries	**118**	**3**	**0**	**5**	**126**
Emerging markets	**3,791**	**1,718**	**84**	**210**	**5,803**
South Eastern Europe/CIS	3,687	1,715	84	210	5,696
Asia	103	1	-	-	104
Latin Amerika	-	-	-	-	-
Middle East/Africa	1	2	-	-	3
Total	**73,395**	**7,696**	**920**	**3,993**	**86,004**

27.4) Credit risk (continued)

Credit risk exposure by region and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2021					
Erste Group markets	**66,730**	**3,808**	**593**	**2,603**	**73,734**
Austria	419	3	-	1	423
Croatia	64,874	3,805	593	2,601	71,873
Serbia	5	-	-	1	6
Slovakia	1,413	-	-	-	1,413
Czech Republic	15	-	-	-	15
Hungary	4	-	-	-	4
Other EU countries	**3,745**	**13**	**18**	**2**	**3,778**
Other industrialised countries	**513**	**2**	**-**	**5**	**520**
Emerging markets	**498**	**500**	**-**	**26**	**1,024**
South Eastern Europe/CIS	493	498	-	26	1,017
Asia	1	-	-	-	1
Latin America	-	-	-	-	-
Middle East/Africa	4	2	-	-	6
Total	**71,486**	**4,323**	**611**	**2,636**	**79,056**
2020					
Erste Group markets	**60,694**	**4,201**	**540**	**3,387**	**68,822**
Austria	187	3	-	1	191
Croatia	59,437	4,194	540	3,386	67,557
Serbia	5	1	-	-	6
Slovakia	1,057	-	-	-	1,057
Czech Republic	7	-	-	-	7
Hungary	1	3	-	-	4
Other EU countries	**3,514**	**17**	**3**	**9**	**3,543**
Other industrialised countries	**113**	**3**	**0**	**5**	**121**
Emerging markets	**531**	**553**	**1**	**25**	**1,110**
Southeastern Europe/CIS	530	551	1	25	1,107
Asia	-	1	-	-	1
Latin America	-	-	-	-	-
Middle East/Africa	1	1	-	-	2
Total	**64,852**	**4,774**	**544**	**3,426**	**73,596**

27.4) Credit risk (continued)

Credit risk exposure by business segment and risk category
The reporting segment of the Group and the Bank is based on the matrix organization by business segment and risk category. The following tables show the credit risk exposure of the Group and the Bank broken down by reporting segments and risk category as at 31 December 2021 and 31 December 2020.

Credit risk exposure by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2021					
Retail	20,455	4,281	591	1,698	27,025
Small and Medium Enterprises	16,207	1,353	282	1,049	18,891
Large Corporates	8,550	9	232	147	8,938
Public sector	9,703	519	-	4	10,226
Commercial Real Estate	1,870	349	2	234	2,455
Group Market Trading	248	15	-	-	263
Group Market Financial Institutions	1,056	7	-	-	1,063
Asset/Liability Management	19,610	1,155	-	-	20,765
Other	295	2	-	18	315
Total	**77,994**	**7,690**	**1,107**	**3,150**	**89,941**
2020					
Retail	20,326	5,252	716	2,053	28,347
Small and Medium Enterprises	15,148	1,432	129	1,278	17,987
Large Corporates	7,385	49	20	367	7,821
Public sector	10,427	236	6	-	10,669
Commercial Real Estate	2,423	10	11	285	2,729
Group Market Trading	199	111	37	-	347
Group Market Financial Institutions	691	7	1	-	699
Asset/Liability Management	16,715	466	-	-	17,181
Other	81	133	-	10	224
Total	**73,395**	**7,696**	**920**	**3,993**	**86,004**

27.4) Credit risk (continued)

Credit risk exposure by business segment and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2021					
Retail	17,195	2,567	274	1,373	21,409
Small and Medium Enterprises	13,712	875	103	873	15,563
Large Corporates	8,508	7	232	147	8,894
Public sector	9,478	40	-	4	9,522
Commercial Real Estate	1,868	348	2	229	2,447
Group Market Trading	248	15	-	-	263
Group Market Financial Institutions	1,047	5	-	-	1,052
Asset/Liability Management	19,279	464	-	-	19,743
Other	151	2	-	10	163
Total	**71,486**	**4,323**	**611**	**2,636**	**79,056**
2020					
Retail	15,829	3,193	383	1,651	21,056
Small and Medium Enterprises	12,530	826	89	1,121	14,566
Large Corporates	7,308	48	19	365	7,740
Public sector	10,014	103	5	-	10,122
Commercial Real Estate	2,422	10	11	279	2,722
Group Market Trading	237	111	37	-	385
Group Market Financial Institutions	685	2	-	-	687
Asset/Liability Management	15,740	465	-	-	16,205
Other	87	16	-	10	113
Total	**64,852**	**4,774**	**544**	**3,426**	**73,596**

27.4) Credit risk (continued)

Non-performing credit risk exposure and allowances for credit risks

The Bank applies the definition of default on client level. In the Bank default status triggers the credit-impairment and the Stage 3 classification under IFRS9 (with more details in subsection Impairment of financial instruments under IFRS 9). Default is recognized when:

- the obligor is past due 90 consecutive days with any material credit obligation to the institution, the parent undertaking or any of its subsidiaries in full; and/or
- the obligor is considered unlikely to pay its credit obligation to the institution, the parent undertaking or any of its subsidiaries in full, in full without realisation of the collateral.

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection Internal rating system.

In the 12 months period ended on 31 December 2021, the non-performing credit risk exposure in the Bank decreased by HRK -790 million from HRK 3.4 billion as at 31 December 2020 to HRK 2.6 billion as at 31 December 2021. During the same period, the non-performing credit risk exposure in the Group decreased by HRK -843 million, from HRK 4.0 billion as at 31 December 2020 to HRK 3.2 billion as at 31 December 2021.

Credit risk allowances were decreased by HRK -210 million in the Group, from HRK 3.7 billion as at 31 December 2020 to HRK 3.4 billion as at 31 December 2021. The decrease of credit risk allowances in the Bank during 2021 was HRK -202 million from HRK 3.1 billion as at 31 December 2020 to 2.9 billion as at 31 December 2021.

The higher decrease of non-performing exposure relative to the decrease of credit risk allowances in the Group resulted with increase of coverage of the non-performing credit risk exposure by credit risk allowances from 91.8% up to 109.4%, and the same pattern was recorded in the Bank so coverage of the non-performing credit risk exposure by credit risk allowances increased from 91.4% to 110.8%. Share of non-performing credit risk exposure in total credit risk exposure in the Group amounted to 3.5% (2020: 4.7%) and 3.3% in the Bank (2020: 4.7%).

27.4) Credit risk (continued)

The general principles and standards for credit risk allowances within the Bank follow the Erste Group's procedures, international standards and are described in internal policies.

The calculation of credit loss allowances is done on a monthly basis, on exposure/asset level, in the currency of the exposure. To calculate the loss allowance, Bank applies an expected credit loss (ECL) model based on a three stages approach that either leads to a 12-months ECL or to a Lifetime ECL.
The stage approach means that if the financial asset is not recognised as purchased or originated credit-impaired financial asset (POCI), i.e. financial asset which is credit-impaired at initial recognition, then depending on the impairment status and the assessment of the increase of credit risk, the financial asset is assigned into one of the following stages:

Stage 1

It includes:
a) Financial assets at initial recognition, except:
i) POCI assets
ii) Assets the initial (on-balance) recognition of which is triggered by first usage of a binding loan commitment given to a counterparty for which a significant credit deterioration occurred since sign-up (initial recognition) of that loan commitment, but which is not in default at the time of such first usage
b) Financial assets which fulfil the low credit risk conditions;
c) Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality
In stage 1 the credit risk loss allowances are calculated as 12-months ECL.

Stage 2

It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described under 1) a) ii) above.
In stage 2 the credit risk loss allowances are calculated as lifetime ECL.

Stage 3

It includes financial assets which are credit-impaired at the reporting date. In principle, financial instrument becomes credit-impaired when customer meets one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, more precisely defined in Internal rating system part.
In stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI

Financial asset is not recognised as purchased or originated credit-impaired financial asset (POCI), i.e. financial asset which is credit-impaired at initial recognition, then depending on the impairment status and the assessment of the increase of credit risk. POCI asset is a subject to lifetime expected credit losses from initial recognition until full derecognition.

27.4) Credit risk (continued)

Quantitative criteria

Quantitative SICR indicators include adverse changes in annualized lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. . SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

The relative measure is calculated as a ratio between current annualised LT PD and annualised LT PD value on initial recognition, considering remaining maturity of the instrument.

Relative thresholds for SICR assessment

	Threshold interval (x times)	
in EUR million	Min	Max
2021		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**
2020		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. Predefined rating notches' downgrade leads to SICR recognition. These rules are applied primarily to leasing and factoring business receivables

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. In the Bank it is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not positively concluded.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Qualitative criteria

Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department) and information from the early-warning system (if it is not sufficiently considered in the rating). The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. We have introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic and related economic impacts. Please see Covid-19 disclosures in the next chapter.

For migration back to Stage 1 there is additional cure period for the portfolio which is being classified as Stage 2 due to the early-warning signal and it lasts 180 days.

27.4) Credit risk (continued)

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

Low credit risk exemption

The 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' assets or other assets deemed 'low risk' (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient 'low risk' evidence. On this basis, the 'low risk exemption' is expected to occasionally apply to some debt security exposures and only exceptionally to loans. The Bank doesn't use 'low risk exemption' criteria for measuring a significant increase in credit risk.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate).

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, repayment type and exposure at default estimation.

The calculation of credit loss allowances is done on a monthly basis on a single exposure level and in the domestic currency. To compute the collective credit loss allowance, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2
- EAD is based on the amounts the Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty and estimated exposure at default (EAD). LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

27.4) Credit risk (continued)

Lifetime parameters

The LT PD is developed through observation of historical defaults from initial recognition through the lifetime of the loans. It is assumed to be same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilizes repayment schedule or repayment type (annuity, linear, bullet). In case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

LGD is estimated as a life-time curve for any point in time, based on the historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant to capital requirement regulations, calculated on a through-the-cycle basis if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information ('FLI'). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts. The baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the 'neutral' PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is incorporated for first three years of ECL measurement. Measurement of the remaining life time returns back to through the cycle observations in the year four immediately.

Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development. We are disclosing sensitivity of the staging and ECL on macro scenarios in the Covid-19 section below.

Following factors, materializing at the end of 2021 led us to assign 40% probability of occurrence to baseline forecast that could not fully reflect them:

- new variant (omicron),
- increasing inflation through-the region with potential effect on the increasing interest rates and
- unstable development of the geo-political situation – conflict Ukraine/Russia – that can as well effect energy prices.

The specific situation of the Covid-19 pandemic and extensive supporting measures led to delayed observation of the defaults. We addressed it with the lagging of the macroeconomic variables in credit risk parameters. Therefore, variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Variables of crisis year 2020 have the same values across all three scenarios. They were updated during 2021 according to the latest statistical offices' updates and publications.

27.4) Credit risk (continued)

Baseline, upside and downside scenarios of GDP development

GDP growth in %	Scenario	Probability weight	2020	2021	2022	2023
2021						
Erste&Steiermärkische Bank d.d.	Upside	1%	(8.0)	12.4	10.8	9.9
	Baseline	40%	(8.0)	8.7	4.8	4.5
	Downside	59%	(8.0)	(1.0)	(1.2)	1.0
			2019	**2020**	**2021**	**2022**
2020						
Erste&Steiermärkische Bank d.d.	Upside	8%	(9.0)	8.2	9.0	9.1
	Baseline	40%	(9.0)	5.2	3.6	4.0
	Downside	52%	(9.0)	(2.5)	(1.4)	0.9

Values disclosed under 2021 represent weighted average of all three scenarios. Values of 2021 will be updated during next year inline with statistical office publication, similarly as 2020 values got updated during 2021. However, as for the past year we are presenting only weighted average result, not particular scenarios.

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the Covid-19 pandemics we have introduced a conservative downside scenario with relatively high probability of occurrence as shown in the GDP overview table above.

EBC group recognizes additional challenges caused by the ESG (environmental, social and governance) risks. We are in the process of analyses how to incorporate these risks into ECL measurement. We have not included additional overlays for ESG risks for year-end 2021. However, due to our considerate approach to the current situation we believe that ECL represents the best estimate of the expected credit losses as of 31 December 2021.

Covid-19

The Covid-19 pandemic has been causing high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, bridge financing, the state temporarily paying workers' salaries to avoid redundancies, and moratoria programs were introduced in Croatia to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on customers

Immediately upon the crisis showing severe economic impacts in Croatia (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support Erste clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of Erste bank towards all stakeholders in mind.

The European Banking Authority (EBA) has issued Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis in 2020., and accordingly to that, the Croatian Government applied non-legislative moratorium. During 2020. certain measures were introduced to mitigate the effects of the special circumstances caused by the coronavirus epidemic like introduction of the Stand-still arrangement, loans for liquidity and working capital with a repayment period of up to three years; moratoria on credit liabilities, and which continued to be implemented in 2021.

Also, Erste Group gave a guidance to the entities in respect of underwriting, reporting and classification processes according to Bank business in 2021. In addition to programs with standard parameters that were defined at a very early stage of the crisis and should support an efficient processing, also individual solutions were continued to offer with clients that did not meet all predefined requirements.

27.4) Credit risk (continued)

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis

				GROUP
in HRK million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to COVID-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	Public guarantee received in the context of the COVID-19 crisis
2021				
Agriculture, forestry	-	19	60	59
Manufacturing	-	6	63	51
Construction	-	2	-	-
Trade	-	2	2	1
Transport	30	25	21	19
Hotels and restaurants	1	14	57	51
Communication	-	1	5	3
Real estate	4	1	0	-
Professional activities	-	1	3	3
Administrative and support service activities	9	6	3	2
Health services	-	-	6	4
Total	**44**	**77**	**220**	**193**

				BANK
in HRK million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to COVID-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	Public guarantee received in the context of the COVID-19 crisis
2021				
Agriculture, forestry	-	19	60	59
Manufacturing	-	6	65	51
Construction	-	2	-	-
Trade	-	2	2	1
Transport	-	22	21	19
Hotels and restaurants	-	14	55	51
Communication	-	1	5	3
Real estate	-	1	-	-
Professional activities	-	1	3	3
Administrative and support service activities	-	6	3	2
Health services	-	-	6	4
Total	**0**	**74**	**220**	**193**

Loans and advances of non-financial corporations to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired) subject to EBA compliant moratoria, amounted to HRK 44 million as of 31 December 2021 on a Group level while there were non valid on the Bank level as of 31 December 2021. Measures mostly refer to EBA-compliant moratoria. The highest amount of granted moratoria measures refers to hotels and restaurants both on Bank and on Group level.

27.4) Credit risk (continued)

Effect on business
In March 2020, risk management and business divisions started a joint initiative aiming to quickly provide a harmonised guidance for a focused industry approach within Erste Group, reflecting the changed economic environment. Industries and sub-industries were categorised into high, medium and low expected impacts due to Covid-19 based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

Main driver for assigning an industry classification was the assessment of impacts of the crisis on the specific (sub)industry. The classifications are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. Recently, the economic development and the ability of many industries to adapt to new conditions resulted in some upgrades into lower risk categories. However, EBC group keeps cautious view on the several, mostly affected industries (mainly hotels and leisure, air transportation). In light of this, the respective business and risk strategies for the (sub)industries were also adapted accordingly.
This approach was aligned with Erste Group and approved by the respective governance bodies of Erste Group.

Given the guidelines prescribed by the Croatian National Bank, the Bank’s strategy was to set additional provisions level for clients who meet the prescribed requirements for the moratorium, and who are classified as high-risk clients independent of industry.

Exposures in particular industries that belong to red sub-industries are referred to as “high risk” in the following tables.

27.4) Credit risk (continued)

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – industry heatmap

								BANK
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
2021								
Agriculture and forestry	1,186	99	87	-	1,372	-	1,372	(85)
Mining	41	9	-	-	50	-	50	(1)
Manufacturing	4,237	353	330	44	4,964	3	4,967	(330)
of which high risk	1	3	10	-	14	-	14	(10)
Energy and water supply	2,055	80	12	-	2,147	7	2,154	(48)
Construction	2,184	223	167	4	2,578	-	2,578	(203)
Trade	3,278	302	190	27	3,797	-	3,797	(218)
Transport and communication	5,292	321	84	8	5,705	-	5,705	(120)
of which high risk	12	30	3	1	46	-	46	(5)
Hotels and restaurants	1,187	3,174	192	59	4,612	2	4,614	(505)
Financial and insurance services	16,926	60	2	-	16,988	115	17,103	(31)
Real estate and housing	2,132	91	47	58	2,328	3	2,331	(86)
Services	929	366	58	6	1,359	-	1,359	(82)
of which high risk	335	296	36	2	669	-	669	(51)
Public administration	19,595	2,178	-	-	21,773	75	21,848	(131)
Education, health and art	1,323	281	10	-	1,614	-	1,614	(40)
of which high risk	272	243	1	-	516	-	516	(25)
Private households	16,093	2,597	1,255	5	19,950	-	19,950	(1,032)
Other	179	12	5	-	196	-	196	(12)
Total	**76,637**	**10,146**	**2,439**	**211**	**89,433**	**205**	**89,638**	**(2,924)**
2020								
Agriculture and forestry	897	309	115	-	1,321	-	1,321	(108)
Mining	54	4	11	-	69	-	69	(10)
Manufacturing	3,398	866	557	61	4,882	3	4,885	(430)
Energy and water supply	1,827	34	11	8	1,880	15	1,895	(48)
Construction	1,971	151	293	4	2,419	2	2,421	(261)
Trade	2,370	628	258	43	3,299	-	3,299	(250)
Transport and communication	4,642	470	70	2	5,184	11	5,195	(88)
Hotels and restaurants	1,871	2,414	225	33	4,543	5	4,548	(387)
Financial and insurance services	10,437	24	2	-	10,463	105	10,568	(38)
Real estate and housing	2,111	133	165	6	2,415	10	2,425	(108)
Services	955	355	46	7	1,363	-	1,363	(71)
Public administration	17,811	1,201	-	-	19,012	44	19,056	(78)
Education, health and art	1,406	112	5	-	1,523	-	1,523	(39)
Private households	16,477	1,653	1,520	4	19,654	-	19,654	(1,194)
Other	117	14	10	-	141	-	141	(15)
Total	**66,344**	**8,368**	**3,288**	**168**	**78,168**	**195**	**78,363**	**(3,125)**

For the COVID-19 stage overlays purposes, the Bank uses the actual NACE code which represents the client's core business and on the basis of which client generates revenue. Based on that NACE code, the client is assigned an industry and ultimately the color from the industry heatmap. Credit risk exposure includes Cash balances at central banks.

27.4) Credit risk (continued)

Effect on Expected Credit Loss
As described above, an increase of the ECL might result from a re-assessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR) or a default.

We have re-assessed credit risk parameters based on the new macro-scenarios FLI overlay. We will continue monitoring of the macro and macro-prediction development in order to reflect up-to-date information in our credit risk parameters. GDP scenarios and weights are shown in the table Baseline, upside and downside scenarios of GDP development.
The Bank has addressed expected SICR by introducing Covid-19 portfolio overlays. We divided the portfolio in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by taking into account any Covid-19 related relieve measure granted as well as the internal industry heat-map and correspond-ing PD levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. life-time ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews.

Majority of the overlays for PIs were released at the end of 2021. They were mainly driven by moratoria that expired at the beginning of 2021. We concluded that sufficient time has passed to capture potential negative developments via regular behavioural scoring.

EBC Group expects a moderate increase in defaults and portfolio deterioration in 2022, especially after state support measures are lifted.

The sensitivity analyses tables below present staging splits of the current performing exposure and ECL. Movements of exposures between performing stages and resulting changes in ECL triggered by effect of Covid-19 SICR overlays and FLI macro overlays is shown.

Effects on industry segments, high risk industry subsegments and geographical segment are disclosed.

For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. Values presented as sensitivities are results of internal simulations.

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic

Impact on credit risk exposure

						BANK
	Current status - parameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2021						
Erste&Steiermärkische Bank d.d.	76,637	10,146	3,305	(3,306)	223	(221)
2020						
Erste&Steiermärkische Bank d.d.	66,344	8,368	3,445	(3,442)	769	(766)

Impact on credit loss allowances

						BANK
	Current status – parameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2021						
Erste&Steiermärkische Bank d.d.	(317)	(794)	(77)	320	97	120
2020						
Erste&Steiermärkische Bank d.d.	(341)	(555)	(72)	238	127	128

27.4) Credit risk (continued)

Impact on credit risk exposure by industry

						BANK
	Current status - parameters (FLI shifted)		Current status without stage overlays due to COVID-19		Point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2021						
Agriculture and forestry	1,186	99	1,248	37	1,205	80
Mining	41	9	41	9	42	8
Manufacturing	4,237	353	4,320	270	4,287	304
of which high risk	1	3	4	-	1	3
Energy and water supply	2,055	80	2,056	79	2,056	79
Construction	2,184	223	2,188	218	2,224	183
Trade	3,278	302	3,400	180	3,328	252
Transport and communication	5,292	321	5,440	174	5,324	290
of which high risk	12	30	37	5	12	30
Hotels and restaurants	1,187	3,174	3,481	879	1,188	3,173
of which high risk	1,137	2,977	3,300	814	1,138	2,976
Financial and insurance services	16,926	60	16,859	60	16,859	60
Real estate and housing	2,132	91	2,208	15	2,134	89
Services	929	366	1,194	101	938	357
of which high risk	335	296	595	36	335	296
Public administration	19,595	2,178	19,600	2,174	19,595	2,178
Education, health and art	1,323	281	1,557	46	1,329	275
of which high risk	272	243	492	23	272	243
Households	16,093	2,597	16,103	2,587	16,105	2,586
Other	179	12	179	12	178	12
Total	**76,637**	**10,146**	**79,874**	**6,841**	**76,792**	**9,926**
2020						
Agriculture and forestry	897	309	979	227	916	289
Mining	54	4	57	1	56	3
Manufacturing	3,398	866	3,857	407	3,537	727
Energy and water supply	1,827	34	1,827	34	1,827	34
Construction	1,971	151	1,980	142	2,067	55
Trade	2,370	628	2,689	309	2,437	561
Transport and communication	4,642	470	5,030	83	4,666	447
Hotels and restaurants	1,871	2,414	3,468	817	1,872	2,413
Financial and insurance services	10,437	24	10,438	24	10,437	24
Real estate and housing	2,111	133	2,147	97	2,112	132
Services	955	355	1,203	108	965	346
Public administration	17,811	1,201	17,811	1,201	18,119	893
Education, health and art	1,406	112	1,478	40	1,408	110
Households	16,477	1,653	16,703	1,426	16,575	1,554
Other	117	14	122	10	119	14
Total	**66,344**	**8,368**	**69,789**	**4,926**	**67,113**	**7,602**

27.4) Credit risk (continued)

Impact on credit loss allowances by industry

						BANK
	Current status - parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2021						
Agriculture and forestry	(12)	(6)	(13)	(4)	(7)	(3)
Mining	(1)	(1)	-	-	-	-
Manufacturing	(44)	(30)	(47)	(23)	(26)	(20)
of which high risk	-	(1)	-	-	-	-
Energy and water supply	(26)	(13)	(26)	(13)	(17)	(11)
Construction	(24)	(24)	(24)	(24)	(15)	(18)
Trade	(46)	(21)	(50)	(13)	(28)	(13)
Transport and communication	(36)	(29)	(40)	(17)	(23)	(19)
of which high risk	-	(1)	(1)	-	-	(1)
Hotels and restaurants	(4)	(359)	(57)	(109)	(3)	(308)
of which high risk	(4)	(329)	(52)	(99)	(3)	(281)
Financial and insurance services	(29)	-	(29)	-	(21)	-
Real estate and housing	(13)	(6)	(14)	(2)	(10)	(6)
Services	(6)	(28)	(12)	(11)	(3)	(20)
of which high risk	-	(21)	(6)	(4)	-	(15)
Public administration	(11)	(121)	(11)	(121)	(10)	(113)
Education, health and art	(14)	(22)	(20)	(3)	(8)	(16)
of which high risk	(7)	(18)	(12)	(1)	(4)	(13)
Households	(45)	(133)	(45)	(133)	(45)	(126)
Other	(6)	(1)	(6)	(1)	(4)	(1)
Total	**(317)**	**(794)**	**(394)**	**(474)**	**(220)**	**(674)**
2020						
Agriculture and forestry	(12)	(19)	(15)	(13)	(6)	(11)
Mining	-	-	-	-	-	-
Manufacturing	(32)	(54)	(41)	(36)	(17)	(30)
Energy and water supply	(29)	(6)	(29)	(6)	(16)	(6)
Construction	(23)	(8)	(23)	(8)	(14)	(3)
Trade	(23)	(35)	(29)	(22)	(12)	(21)
Transport and communication	(20)	(25)	(26)	(5)	(13)	(17)
Hotels and restaurants	(8)	(228)	(40)	(88)	(5)	(196)
Financial and insurance services	(36)	-	(36)	-	(25)	-
Real estate and housing	(14)	(12)	(14)	(9)	(9)	(10)
Services	(7)	(23)	(11)	(8)	(3)	(16)
Public administration	(45)	(33)	(45)	(33)	(28)	(30)
Education, health and art	(24)	(11)	(27)	(2)	(12)	(8)
Private households	(67)	(100)	(71)	(87)	(50)	(79)
Other	(1)	(1)	(5)	-	(4)	-
Total	**(341)**	**(555)**	**(413)**	**(317)**	**(214)**	**(427)**

The following tables present sensitivity analyses taking into consideration only changes due to the different values of PDs according to the baseline, upside and downside FLI scenarios. Covid-19 SICR overlays are ignored. Sensitivities of these particular scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the “Incorporation of forward-looking information” section above). The staging and ECL results if each baseline, upside or downside scenar-io were of 100% weight are shown in industry. The point in time PD effect as of 31 December 2021 is displayed as comparative information only.

27.4) Credit risk (continued)

The sensitivity analyses confirms that the FLI macro shift due to the Covid-19 induced macro situation is significantly lower in both exposure and ECL as of 31 December 2021 in comparison to 31 December 2020. Credit risk exposure in an amount of HRK 221 million is in stage 2 due to FLI shift as of 31 December 2021 compared to HRK 766 million as of 31 December 2020 what is the consequenceof the favorable macroeconomic projections for the following period, compared to the projections in the previous year.

Impact of different scenarios on credit risk exposure by industry

								BANK
Probability of default	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2021								
Agriculture and forestry	19	(19)	11	(11)	13	(13)	(9)	9
Manufacturing	49	(49)	51	(51)	49	(49)	(105)	105
Construction	40	(40)	43	(43)	41	(41)	(40)	40
Trade	51	(51)	53	(53)	49	(49)	(51)	51
Transport and communication	32	(32)	69	(69)	30	(30)	(22)	22
Hotels and restaurants	1	(1)	1	(1)	1	(1)	(2)	2
of which high risk	1	(1)	1	(1)	1	(1)	(2)	2
Real estate and housing	2	(2)	2	(2)	2	(2)	(3)	3
Services	9	(9)	8	(8)	8	(8)	(17)	17
Education, health and art	6	(6)	5	(5)	5	(5)	(4)	4
Households	11	(11)	63	(63)	47	(47)	(55)	55
Other	1	(1)	1	(1)	1	(1)	(1)	1
Total	**221**	**(221)**	**307**	**(307)**	**246**	**(246)**	**(309)**	**309**
2020								
Agriculture and forestry	19	(19)	1	(1)	2	(2)	-	-
Mining	1	(1)	-	-	-	-	-	-
Manufacturing	139	(139)	94	(94)	36	(36)	(6)	6
Construction	96	(96)	16	(16)	15	(15)	(2)	2
Trade	67	(67)	3	(3)	-	-	(10)	10
Transport and communication	23	(23)	9	(9)	8	(8)	(2)	2
Hotels and restaurants	1	(1)	-	-	-	-	-	-
Real estate and housing	1	(1)	-	-	-	-	(1)	1
Services	9	(9)	3	(3)	3	(3)	-	-
Public administration	308	(308)	-	-	-	-	-	-
Education, health and art	1	(1)	-	-	-	-	-	-
Households	99	(99)	105	(105)	56	(56)	(54)	54
Other	2	(2)	-	-	-	-	(1)	1
Total	**766**	**(766)**	**231**	**(231)**	**120**	**(120)**	**(76)**	**76**

27.4) Credit risk (continued)

Impact of different scenarios on credit loss allowances by industry

								BANK
	Point in time- (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in HRK million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2021								
Agriculture and forestry	5	4	4	3	4	3	(2)	(2)
Manufacturing	18	11	20	13	18	11	(8)	(20)
Energy and water supply	9	2	10	3	9	2	(6)	(1)
Construction	9	7	9	7	9	7	(5)	(6)
Trade	19	8	21	9	19	8	(11)	(9)
of which high risk	-	(3)	-	-	-	-	-	-
Transport and communication	13	11	14	13	13	11	(9)	(8)
of which high risk	-	1	-	1	-	-	-	-
Hotels and restaurants	1	50	1	61	1	51	(1)	(34)
of which high risk	1	48	1	59	1	49	(1)	(33)
Financial and insurance services	7	-	9	-	8	-	(5)	-
Real estate and housing	3	1	3	1	3	1	(2)	(1)
Services	3	8	3	9	3	8	(1)	(6)
of which high risk	-	6	-	6	-	6	-	(4)
Public administration	-	8	-	10	-	9	-	(6)
Education, health and art	5	6	6	7	6	6	(4)	(4)
of which high risk	3	4	3	5	3	5	(2)	(3)
Households	-	7	12	30	9	24	(6)	(19)
Other	2	-	3	-	2	-	(2)	-
Total	**94**	**123**	**115**	**166**	**104**	**141**	**(62)**	**(116)**
2020								
Agriculture and forestry	5	8	-	2	-	1	-	(1)
Manufacturing	15	24	(2)	12	(1)	5	-	(3)
Energy and water supply	13	-	-	-	-	-	-	-
Construction	9	6	(1)	1	(1)	1	-	-
Trade	11	13	-	3	-	2	1	(2)
Transport and communication	8	7	-	3	-	2	-	(1)
Hotels and restaurants	3	32	-	11	-	7	-	(7)
Financial and insurance services	11	-	-	-	-	-	-	-
Real estate and housing	5	2	-	-	-	-	-	-
Services	4	6	-	1	-	1	-	(1)
Public administration	17	2	-	-	-	-	-	-
Education, health and art	12	3	-	1	-	-	-	-
Households	17	23	(4)	14	(2)	8	1	(7)
Other	2	1	-	-	-	-	-	-
Total	**132**	**127**	**(7)**	**48**	**(4)**	**27**	**2**	**(22)**

27.4) Credit risk (continued)

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principle amount due or a combination thereof. Restructuring can be business restructuring (in retail) and commercial renegotiation (in corporate) or forbearance in line with EBA requirements in both segments.

Business restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving repricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance

In case the restructuring entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments, the restructuring is considered forbearance.
Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:
- Modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty,
- There is a difference in favour of the customer between the modified/refinanced and the previous terms of the contract,
- The modified/refinanced contract includes more favourable terms than other customers with similar risk profile could have obtained from the Bank.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.).

Forbearance measures are divided and reported as:
- Performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance)
- Non-performing forbearance.

27.4) Credit risk (continued)

In the table below, comparison of forbearance and credit risk exposure and allowances is given for the Bank and the Group for 31 December 2021 and 31 December 2020.

Credit risk exposure, forbearance exposure and credit loss allowances

					GROUP
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2021					
Gross exposure	**61,401**	**16,858**	**6,163**	**5,519**	**89,941**
thereof gross forborne exposure	1,327	-	10	-	1,337
Performing exposure	58,291	16,858	6,146	5,497	86,792
thereof performing forborne exposure	533	-	6	-	539
Credit loss allowances for performing exposure	(1,061)	(86)	(83)	(66)	(1,296)
thereof credit loss allowances for performing forborne exposure	(39)	-	(1)	-	(40)
Non-performing exposure	3,110	-	17	22	3,149
thereof non-performing forborne exposure	794	-	4	-	798
Credit loss allowances for non-performing exposure	(2,131)	-	(5)	(14)	(2,150)
thereof credit loss allowances for non-performing forborne exposure	(442)	-	(1)	-	(443)

					GROUP
in HRK million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2020					
Gross exposure	**60,829**	**13,411**	**7,519**	**4,245**	**86,004**
thereof gross forborne exposure	1,296	-	23	-	1,319
Performing exposure	57,007	13,405	7,460	4,138	82,010
thereof performing forborne exposure	450	-	21	-	471
Credit loss allowances for performing exposure	(893)	(73)	(73)	(35)	(1,074)
thereof credit loss allowances for performing forborne exposure	(27)	-	(4)	-	(31)
Non-performing exposure	3,822	6	59	107	3,994
thereof non-performing forborne exposure	846	-	2	-	848
Credit loss allowances for non-performing exposure	(2,540)	-	(19)	(23)	(2,582)
thereof credit loss allowances for non-performing forborne exposure	(496)	-	(1)	-	(497)

27.4) Credit risk (continued)

Credit risk exposure, forbearance exposure and credit loss allowances (continued)

					BANK
in HRK million	**Loans and receivables**	**Debt securities**	**Loan commitments**	**Other positions**	**Total**
2021					
Gross exposure	**53,418**	**16,086**	**4,885**	**4,667**	**79,056**
thereof gross forborne exposure	1,169	-	10	-	1,179
Performing exposure	50,811	16,086	4,877	4,646	76,420
thereof performing forborne exposure	455	-	6	-	461
Credit loss allowances for performing exposure	(883)	(80)	(76)	(66)	(1,105)
thereof credit loss allowances for performing forborne exposure	(32)	-	(1)	-	(33)
Non-performing exposure	2,607	-	8	21	2,636
thereof non-performing forborne exposure	714	-	4	-	718
Credit loss allowances for non-performing exposure	(1,798)	-	(1)	(17)	(1,816)
thereof credit loss allowances for non-performing forborne exposure	(410)	-	(1)	-	(411)

					BANK
in HRK million	**Loans and receivables**	**Debt securities**	**Loan commitments**	**Other positions**	**Total**
2020					
Gross exposure	**52,659**	**12,566**	**4,872**	**3,499**	**73,596**
thereof gross forborne exposure	1,178	-	23	-	1,201
Performing exposure	49,378	12,560	4,837	3,395	70,170
thereof performing forborne exposure	395	-	21	-	416
Credit loss allowances for performing exposure	(727)	(69)	(62)	(34)	(892)
thereof credit loss allowances for performing forborne exposure	(24)	-	(4)	-	(28)
Non-performing exposure	3,281	6	35	104	3,426
thereof non-performing forborne exposure	783	-	2	-	785
Credit loss allowances for non-performing exposure	(2,194)	-	(14)	(21)	(2,229)
thereof credit loss allowances for non-performing forborne exposure	(469)	-	(1)	-	(470)

Collateral

Recognition of collateral
The Collateral Management unit is a staff unit within the Risk Management Division. The Collateral Management Policy defines, among other things, uniform valuation standards for credit collateral across the entire Bank. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All the collateral types acceptable within the Bank are defined by internal acts. The valuation and revaluation of collateral is done according to the principles defined in the Collateral Management Policy in accordance with the supervisory requirements.

Main types of collateral
The following types of collateral are the most frequently accepted:

Real estate: This includes both private and commercial real estate
Financial collateral: Primarily includes securities portfolios and cash deposits
Guarantees: Guarantees are provided mainly by governments, banks. All guarantors must have a minimum credit quality, in accordance with regulatory requirements.

27.4) Credit risk (continued)

The Bank also accepts other collaterals such as movables, balance sheet netting, investment fund shares in accordance with European (EU) and local regulations.

Collateral valuation and management
Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period.
When calculating collateral coverage, the amount of coverage is adjusted through corrective factors, depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations.

The methods and discounts used for valuations are based on empirical data representing past experience of the Collection and Workout department and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion. Generally, the Group does not occupy repossessed properties for its own business use. The main part of assets taken into its own books are construction lands and business objects as well as residential real estate.

27.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral

GROUP

in HRK million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2021									
Other demand deposits to credit institutions	442	-	-	-	-	442	112	330	-
Debt instruments held for trading	145	-	-	-	-	145	-	-	-
Non-trading debt instruments at FVPL	65	-	-	-	-	65	-	-	-
Debt instruments at FVOCI	11,853	-	-	-	-	11,853	11,853	-	-
Debt instruments at AC	62,278	23,945	4,881	16,153	2,911	38,333	58,081	1,336	2,861
Debt securities	4,940	-	-	-	-	4,940	4,940	-	-
Loans and advances to banks	4,410	382	-	-	382	4,028	4,410	-	-
Loans and advances to customers	52,928	23,563	4,881	16,153	2,529	29,365	48,731	1,336	2,861
Trade and other receivables	1,459	80	-	6	74	1,379	1,139	135	185
Finance lease receivables	2,604	2,160	1	-	2,159	444	1,944	595	65
Off balance-sheet exposures	11,095	1,548	2	921	625	9,547	11,006	49	40
Total	**89,941**	**27,733**	**4,884**	**17,080**	**5,769**	**62,208**	**84,135**	**2,445**	**3,151**

GROUP

in HRK million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2020									
Other demand deposits to credit institutions	381	-	-	-	-	381	24	357	-
Debt instruments held for trading	162	-	-	-	-	162	-	-	-
Non-trading debt instruments at FVPL	152	-	-	-	-	152	-	-	-
Debt instruments at FVOCI	10,896	-	-	-	-	10,896	10,896	-	-
Debt instruments at AC	59,313	23,571	4,196	16,192	3,183	35,742	54,107	1,699	3,507
Debt securities	2,363	-	-	-	-	2,363	2,363	-	-
Loans and advances to banks	4,051	637	-	-	637	3,414	4,051	-	-
Loans and advances to customers	52,899	22,934	4,196	16,192	2,546	29,965	47,693	1,699	3,507
Trade and other receivables	1,367	56	-	7	49	1,311	935	191	241
Finance lease receivables	2,512	2,104	-	-	2,104	408	1,687	751	74
Off balance-sheet exposures	11,221	1,321	237	876	208	9,900	10,913	143	165
Total	**86,004**	**27,052**	**4,433**	**17,075**	**5,544**	**58,952**	**78,562**	**3,141**	**3,987**

27.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral (continued)

BANK

in HRK million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2021									
Other demand deposits to credit institutions	110	-	-	-	-	110	32	78	-
Debt instruments held for trading	145	-	-	-	-	145	-	-	-
Non-trading debt instruments at FVPL	60	-	-	-	-	60	-	-	-
Debt instruments at FVOCI	11,350	-	-	-	-	11,350	11,350	-	-
Debt instruments at AC	57,321	22,192	4,767	14,591	2,834	35,129	53,855	938	2,528
Debt securities	4,676	-	-	-	-	4,676	4,676	-	-
Loans and advances to banks	4,325	382	-	-	382	3,943	4,325	-	-
Loans and advances to customers	48,320	21,810	4,767	14,591	2,452	26,510	44,854	938	2,528
Trade and other receivables	773	78	-	6	72	695	667	27	79
Off balance-sheet exposures	9,297	1,388	2	789	597	7,909	9,223	45	29
Total	**79,056**	**23,658**	**4,769**	**15,386**	**3,503**	**55,398**	**75,127**	**1,088**	**2,636**

BANK

in HRK million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2020									
Other demand deposits to credit institutions	89	-	-	-	-	89	8	81	-
Debt instruments held for trading	162	-	-	-	-	162	-	-	-
Non-trading debt instruments at FVPL	33	-	-	-	-	33	-	-	-
Debt instruments at FVOCI	10,352	-	-	-	-	10,352	10,352	-	-
Debt instruments at AC	54,156	21,874	4,071	14,745	3,058	32,282	49,731	1,237	3,188
Debt securities	2,181	-	-	-	-	2,181	2,181	-	-
Loans and advances to banks	3,978	637	-	-	637	3,341	3,978	-	-
Loans and advances to customers	47,997	21,237	4,071	14,745	2,421	26,760	43,572	1,237	3,188
Trade and other receivables	684	53	-	7	46	631	577	13	94
Off balance-sheet exposures	8,120	1,197	233	771	193	6,923	7,866	115	139
Total	**73,596**	**23,124**	**4,304**	**15,523**	**3,297**	**50,472**	**68,534**	**1,446**	**3,421**

27.5) Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. Market risk is divided into interest rate risk, currency risk and equity risk. This concerns both trading and banking book positions.

Methods and instruments employed

Potential losses that may arise from market movements are assessed using the Value at Risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years and calculates the VaR for the current position of the Bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR (SVaR) is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables the Bank on the one hand to hold sufficient own funds available for the trading book also in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects in the management of trading positions.

Standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at the Bank for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as 9/11 or the Lehman bankruptcy form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement during the last years is applied. For the probabilistic scenarios shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analyses are made available to the Management Board and the Supervisory Board within the scope of the monthly market risk reports.

For the local capital requirements, the Bank and the Group are using the standardized model.

Methods and instruments of risk mitigation

The Bank manages market risks in the trading book by setting several layers of limits. The overall limit based on VaR for the trading book is decided by the Management Board while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Management Board and Market Risk Committee based on a proposal from the Market Risk Management unit.

27.5) Market risk (continued)

To all market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the VaR overall limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the VaR limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the Market and Liquidity Risk Management Department in the Bank and by the Trading Book Risk Group. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.
The VaR is calculated daily and is available and reported to the individual trading units as well as to the superior management levels all the way up to the Management Board.

Certain banking book positions are subjected to a daily VaR analysis. The total VaR is determined in the same manner as the VaR for the trading book.

Analysis of market risk

Value at Risk of banking book and trading book
The following tables show the VaR amounts as at 31 December 2021 and 31 December 2020 respectively at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of banking book and trading book 2021

in HRK thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Position held in non-Trading Book	49,387	49,563	240	1	-	959
Fair Value Through Other Comprehensive Income	31,647	31,630	72	-	-	28
Amortised Cost	33,569	33,524	1	-	-	-
Held for Trading	56	55	-	-	-	-

Value at Risk of banking book and trading book 2020

in HRK thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Position held in non-Trading book	27,372	27,125	362	1	-	483
Fair Value Through Other Comprehensive Income	22,234	22,162	9	-	-	10
Amortised Cost	7,260	7,259	1	-	-	-
Held for Trading	51	43	25	-	-	-

Interest rate risk of banking book

Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognized on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included based on modelled deposit rates that are determined by means of statistical methods and the rules from the CNB, in line with the EBA's guidelines.

The following tables list the open fixed-income positions held by the Bank in currencies that carry an interest rate risk, i.e. for all significant currencies as of 31 December 2021 and 31 December 2020.

27.5) Market risk (continued)

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items, negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book in 2021

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	6,333	4,823	1,927	523	44
Fixed-interest gap in EUR positions	1,199	2,876	259	2,460	1,814

Open fixed-income positions not assigned to the trading book in 2020

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	4,882	4,507	1,347	413	(164)
Fixed-interest gap in EUR positions	2,187	2,936	2,460	1,191	170

Exchange rate risk

The Bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.
Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are approved by the Management Board and the Market Risk Committee.

The following table shows the largest open exchange rate positions of the Bank as of 31 December 2021 and the corresponding open positions of these currencies as of 31 December 2020.

Open exchange rate positions

in HRK thousand	2020	2021
Euro (EUR)	(172,784)	(60,313)
US dollar (USD)	4,791	(3,918)
Norwegian krone (NOK)	1,448	993
British Pound (GBP)	(682)	(973)
Hungarian Forint (HUF)	585	(638)
Swedish krona (SEK)	532	497
Canadian dollar (CAD)	498	475
Czech Koruna (CZK)	313	449
Australian dollar (AUD)	1,129	220

Bank manages open FX risk positions according to its strategy and the aim is not to have significant exposures to FX risk. In cases of open FX position, above 2% of regulatory capital, Bank calculates capital charge for FX risk.

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. EBC Group is exposed to credit spread risk with respect to its securities portfolio in the banking book.

Quantifying the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

27.6) Liquidity risk

Definition and overview

The liquidity risk in the Bank is defined in line with the principles set out by the Basel Committee on Banking Supervision and the Capital Requirements Regulation (CRR), Delegated Regulation (EU) 2015/61 and the Decision on governance arrangements by Croatian National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank’s own refinancing cost or spread.

The Bank continues its ongoing project activities to improve the framework for liquidity risk reporting. Besides the preparation for the new regulatory reporting requirements, current projects are aimed at continuously improving the internal stress testing methodology and the data quality used in the risk measurement.

Liquidity strategy

In 2021, there was a significant increase in customer deposits, which remained the Bank's primary source of funding. On the assets side, the volume of loans did not follow the growth of customer deposits, remaining at a stable level. These developments generated a significant accumulation of excess liquidity, which was partly used for early repayments of long-term financing lines from foreign banks and the Croatian National Bank (CNB), while the rest was mainly invested in highly liquid government bonds and placed through deposits with central bank and foreign banks.

In 2021, the Bank issued two own bonds totaling EUR 445 million. The bond with a volume of EUR 45 million and a maturity of 5 years was first issued on the domestic market, followed by an international issue of EUR 400 million and a maturity of 7 years with the call option after 6 years. The liquidity obtained form issued bonds the Bank used to repay EUR 158 million of long-term intra-group financing, partly at regular maturity, while part was repaid early.

Liquidity ratios

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been implemented as ratios relevant for reporting purposes. The LCR represents a ratio of highly liquid assets on the one hand and net cash outflows over a 30 day time horizon on the other. The minimum ratio has been set at 100%. As of June 2021 the NSFR becomes binding minimum requirement according to the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 (CRR II). The NSFR represents a ratio of available stable funding on the one hand and required stable funding on the other, within a 12 month time horizon

Methods and instruments used for measurement of liquidity risk

The short-term insolvency risk is monitored by calculating the survival period in total and for major currencies. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions by estimating the effect from collateral outflow in the case of adverse market movements.

As far back as 2011, the Bank's liquidity risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Internally, the ratios are monitored on the Bank and Group of credit instituons level and are part of the Risk Apetite Statement (RAS). And from 1 January 2017, Liquidity Coverage Ratio (LCR) is monitored daily. At the end of 2021, both LCR and NSFR for the Bank were above 100%.

27.6) Liquidity risk (continued)

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the Bank are reported and monitored regularly, as part of the Structural liquidity ratio (STRL). Funding concentration risk is continuously analysed in respect to counterparties. The Bank's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of liquidity risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets. Limit breaches are reported to the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within the Bank is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared for the planning horizon.

The Comprehensive Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity coverage ratio

The Bank uses the regulatory liquidity coverage ratio according to the Delegated regulation (EU) 2015/61 (LCR DA) for internal monitoring and steering of the liquidity position as well. In order to keep the LCR DA above both limits, the regulatory limit and the internal limit, the Bank monitors daily its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR DA as of 31 December 2021 and 31 December 2020:

		BANK
	2020	2021
Liquidity Coverage Ratio (LCR)	149%	190%

Structural liquidity

The long-term liquidity position is monitored using structural funding gaps ensuring an appropriate balance between assets and liabilities in the medium and long term time horizons avoiding excessive maturities transformation and consequently increased pressure on the short-term liquidity position.

The following table shows the ratio between all long-term maturing liabilities and all long-term maturing assets as of 31 December 2021 and 31 December 2020 which is calculated reverse cumulatively per time bucket. Ratio is based on contractual or modelled run-off cash flows and has a comprehensive coverage of on- and off- balance sheet components.

			BANK
2021	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.24	1.21	1.21

			BANK
2020	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.03	1.03	1.01

27.6) Liquidity risk (continued)

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the Central Banks as well as unencumbered Central Bank eligible assets and other liquid securities, including changes from repos and reverse repos. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of 2021 year end and 2020 year end are shown in the tables below:

Term structure of counterbalancing capacity 2021

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	8,842	-	-	-	-
Liquid assets	12,589	(8)	(1,037)	(429)	(281)
Counterbalancing capacity	**21,431**	**(8)**	**(1,037)**	**(429)**	**(281)**

Term structure of counterbalancing capacity 2020

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	3,174	-	-	-	-
Liquid assets	10,029	(818)	(217)	-	(506)
Counterbalancing capacity	**13,203**	**(818)**	**(217)**	**-**	**(506)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts.

27.6) Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2021 and 31 December 2020 respectively, were as follows:

Undiscounted financial liabilities

2021						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**78,811**	**79,211**	**52,883**	**11,973**	**9,729**	**4,626**
Deposits by banks	6,307	6,362	748	1,437	3,570	607
Customer deposits	68,268	68,305	52,122	10,156	5,238	789
Debt securities in issue	4,010	4,284	13	380	661	3,230
Subordinated liabilities	226	260	-	-	260	-
Derivative liabilities	**56**	**59**	**5**	**32**	**4**	**18**
Derivatives liabilities with netted Cash Flows	-	20	-	-	2	18
Derivatives liabilities with gross Cash Flow (net)	-	39	5	32	2	-
Outflows	-	3,732	1,662	1,830	240	-
Inflows	-	(3,693)	(1,657)	(1,798)	(238)	-
Contingent liabilities	**-**	**12,363**	**12,363**	**-**	**-**	**-**
Financial guarantees	-	4,933	4,933	-	-	-
Irrevocable commitments	-	7,430	7,430	-	-	-
Total	**78,867**	**91,633**	**65,251**	**12,005**	**9,733**	**4,644**

2020						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**69,853**	**70,149**	**43,840**	**14,186**	**10,186**	**1,937**
Deposits by banks	7,763	7,860	1,030	1,665	4,315	850
Customer deposits	60,128	60,185	42,805	11,899	4,394	1,087
Debt securities in issue	677	717	1	-	716	-
Subordinated liabilities	1,285	1,387	4	622	761	-
Derivative liabilities	**106**	**(3)**	**(4)**	**(27)**	**(1)**	**29**
Derivatives liabilities with netted Cash Flows	-	32	-	-	3	29
Derivatives liabilities with gross Cash Flow (net)	-	(35)	(4)	(27)	(4)	-
Outflows	-	3,516	1,286	1,955	275	-
Inflows	-	(3,551)	(1,290)	(1,982)	(279)	-
Contingent liabilities	**-**	**11,221**	**11,221**	**-**	**-**	**-**
Financial guarantees	-	3,702	3,702	-	-	-
Irrevocable commitments	-	7,519	7,519	-	-	-
Total	**69,959**	**81,367**	**55,057**	**14,159**	**10,185**	**1,966**

27.6) Liquidity risk (continued)

Undiscounted financial liabilities (continued)

2021						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**72,179**	**72,546**	**50,345**	**10,437**	**7,716**	**4,048**
Deposits by banks	3,016	3,040	616	402	1,907	115
Customer deposits	64,927	64,962	49,716	9,655	4,888	703
Debt securities in issue	4,010	4,284	13	380	661	3,230
Subordinated liabilities	226	260	-	-	260	-
Derivative liabilities	**56**	**59**	**5**	**32**	**4**	**18**
Derivatives liabilities with netted Cash Flows	-	20	-	-	2	18
Derivatives liabilities with gross Cash Flow (net)	-	39	5	32	2	-
Outflows	-	3,732	1,662	1,830	240	-
Inflows	-	(3,693)	(1,657)	(1,798)	(238)	-
Contingent liabilities	**-**	**9,297**	**9,297**	**-**	**-**	**-**
Financial guarantees	-	4,413	4,413	-	-	-
Irrevocable commitments	-	4,884	4,884	-	-	-
Total	**72,235**	**81,902**	**59,647**	**10,469**	**7,720**	**4,066**

2020						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**63,139**	**63,387**	**41,690**	**12,214**	**8,061**	**1,422**
Deposits by banks	3,924	3,978	642	308	2,559	469
Customer deposits	57,253	57,305	41,043	11,284	4,025	953
Debt securities in issue	677	717	1	-	716	-
Subordinated liabilities	1,285	1,387	4	622	761	-
Derivative liabilities	**106**	**(3)**	**(4)**	**(27)**	**(1)**	**29**
Derivatives liabilities with netted Cash Flows	-	32	-	-	3	29
Derivatives liabilities with gross Cash Flow (net)	-	(35)	(4)	(27)	(4)	-
Outflows	-	3,516	1,286	1,955	275	-
Inflows	-	(3,551)	(1,290)	(1,982)	(279)	-
Contingent liabilities	**-**	**8,120**	**8,120**	**-**	**-**	**-**
Financial guarantees	-	3,248	3,248	-	-	-
Irrevocable commitments	-	4,872	4,872	-	-	-
Total	**63,245**	**71,504**	**49,806**	**12,187**	**8,060**	**1,451**

27.7) Operational risk

Definition and overview

Pursuant to Article 4 (52) of CRR, the Bank defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risk and are refined further in order to capture all information relevant to risk management.

Operational risk events are categorized within seven event types according to the Credit Institutions Act:
Internal theft and fraud, External theft and fraud, Employment practices and workplace safety, Clients, products and business practices, Damage to physical assets, Business disruption and (IT) system failures and, Execution, delivery and process management.

Operational Risk Framework and Standards

For managing operational risk the Bank applies following elements: identification of operational risk, assessment, mitigation and acceptance of operational risk, quantification of operational risk and monitoring, controlling and reporting of operational risk.
When determining the operational risk exposure for the Bank, qualitative and quantitative tools have been applied.
The quantitative analysis of operational risk includes collection of internal and external loss event data where particular emphasis is put on the data classification and quality necessary for quantifying operational risk. Furthermore, the Bank uses external operational risk loss data and scenario analysis which are implemented to analyse possible future losses which the Bank has not experienced yet.
For the qualitative analysis risk and control self-assessments (RCSA) has to be performed on a regular basis and corrective measures have to be implemented by relevant organizational unit for high risk points where internal controls are not adequate or efficient.
An objective in the identification of operational risk is to establish key risk indicators such as system availability, staff turnover, customer complaints, which are measured and give a timely indication regarding changes in the operational risk profile.

The Bank locally applies The Standardised Approach – TSA for operational risk capital requirements calculation.

The Bank is included in the insurance program for operational risk on the Erste Group level (Captive Insurance) and the insurance is recognized as mitigation measure for capital requirements using Advanced Measurement Approach on Erste Group’s consolidated level.

The Bank's Management Board is informed on operational risk through Operational Risk Quarterly Report which includes operational risk exposure and losses, risk assessments results, key risk indicators and corrective measures. Non-Financial Risk management committee is held at minimum on a quarterly basis which decides also on operational risk management related topics.

Non-current assets and other investments

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that property and equipment. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Depreciation is reported in the statement of profit or loss in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

The estimated economic useful lives are set out below:

	Useful life in years	
	2020	2021
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4-6	4-6
Computer hardware	4	4

Land is not depreciated.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of profit or loss in the line item 'Other operating result'.

Investment properties

Investment property is a property (land and buildings or part of a building or both) held for the purpose of earning rentals and/or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction when the future use is expected to be the same as for investment property are treated as investment property.

Investment property is initially measured at cost, including transaction costs. Subsequently, investment property is measured at cost less accumulated amortisation and impairment. Investment property is presented in the statement of financial position under the line item 'Investment properties'.

Rental income is recognised and presented in the statement of profit or loss in the line item 'Rental income from investment properties and other operating leases'. Depreciation is recognised and presented in the statement of profit or loss in the line 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings presented under 'Property and equipment'. Any impairment losses, as well as their reversals, are recognised in the statement of profit or loss and presented in the line item 'Other operating result'.

Assets under operating leases

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The leased asset is presented by the lessor in the statement of financial position under the line item 'Property and equipment'.

Initial direct costs of obtaining the lease are added to the underlying asset and recognised as an expense over the lease term on the same basis as the lease income.

For assets held under operating lease the Group uses a depreciation policy which is consistent with the normal depreciation policy for similar assets. Depreciation is recognised and presented in the statement of profit or loss in the line item 'Depreciation and amortisation'.

Lease income arising is accounted for on a straight-line basis over the lease terms and presented in the statement of profit or loss in the line item 'Rental income from investment properties and other operating leases'.

Right of use assets

Under IFRS 16, the Group as a lessee recognises a right-of-use asset representing its right to use the underlying asset.
The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and includes other elements such as initial direct costs incurred by the lessee. The right-of-use assets is presented in the statement of financial position under the line item 'Property and equipment'. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The useful lives for property are between 2 and 15 years while the motor vehicles are depreciated based on useful lives between 2 and 6 years. Depreciation is reported in the statement of profit or loss in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment properties, right of use assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the assets or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring 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.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and their reversals are recognised in profit or loss and presented in the statement of profit or loss under the line item 'Other operating result'.

28. Property, equipment and Investment properties

Acquisition costs

Own property, equipment and investment properties

GROUP

in HRK million	Property and equipment – Acquisition costs					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**910**	**347**	**375**	**503**	**2,135**	**42**
Additions (+)	34	26	44	67	171	1
Disposals (-)	(13)	(33)	(20)	(173)	(239)	(31)
Disposal of group	(3)	(2)	(2)	-	(7)	-
Reclassification	(7)	7	-	-	-	-
Currency translation	1	-	-	-	1	-
Balance as at 31 December 2020	**922**	**345**	**397**	**397**	**2,061**	**12**
Additions (+)	22	26	43	64	155	1
Disposals (-)	(4)	(18)	(19)	(128)	(169)	-
Reclassification	-	-	-	-	-	-
Assets held for sale	(3)	(1)	(2)	-	(6)	(8)
Currency translation	-	-	-	-	-	-
Balance as at 31 December 2021	**937**	**352**	**419**	**333**	**2,041**	**5**

Rights of use: property, equipment and investment properties

GROUP

in HRK million	Property and equipment – Acquisition costs					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**110**	**3**	**-**	**-**	**113**	**-**
Additions (+)	55	1	-	-	56	-
Disposals (-)	(33)	-	-	-	(33)	-
Disposal of group	(1)	-	-	-	(1)	-
Balance as at 31 December 2020	**131**	**4**	**-**	**-**	**135**	**-**
Additions (+)	29	1	-	-	30	-
Disposals (-)	(7)	-	-	-	(7)	-
Assets held for sale	(9)	(1)	-	-	(10)	-
Balance as at 31 December 2021	**144**	**4**	**-**	**-**	**148**	**-**

Accumulated depreciation

Own property, equipment and investment properties

GROUP

in HRK million	Property and equipment – Accumulated depreciation					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**(285)**	**(243)**	**(206)**	**(186)**	**(920)**	**(9)**
Depreciation (-)	(19)	(31)	(54)	(64)	(168)	(1)
Disposals (+)	3	32	19	105	159	3
Disposal of group	1	2	2	-	5	-
Impairment	-	(1)	-	-	(1)	-
Reclassification	1	(2)	1	-	-	-
Balance as at 31 December 2020	**(299)**	**(243)**	**(238)**	**(145)**	**(925)**	**(7)**
Depreciation (-)	(20)	(30)	(58)	(52)	(160)	-
Disposals (+)	4	18	18	81	121	-
Impairment	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	2	-	1	-	3	5
Balance as at 31 December 2021	**(313)**	**(255)**	**(277)**	**(116)**	**(961)**	**(2)**

28. Property, equipment and Investment properties (continued)

Rights of use: property, equipment and investment properties

GROUP

in HRK million	Property and equipment – Accumulated depreciation					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**(16)**	**(1)**	**-**	**-**	**(17)**	**-**
Depreciation (-)	(23)	(1)	-	-	(24)	-
Disposals (+)	6	-	-	-	6	-
Balance as at 31 December 2020	**(33)**	**(2)**	**-**	**-**	**(35)**	**-**
Depreciation (-)	(20)	(1)	-	-	(21)	-
Disposals (+)	6	-	-	-	6	-
Assets held for sale	-	1	-	-	1	-
Balance as at 31 December 2021	**(47)**	**(2)**	**-**	**-**	**(49)**	**-**

Carrying amounts

Own property, equipment and investment properties

GROUP

in HRK million	Property and equipment					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2020	**623**	**102**	**159**	**252**	**1,136**	**5**
Balance as at 31 December 2021	**624**	**97**	**142**	**217**	**1,080**	**3**

Rights of use: property, equipment and investment properties

GROUP

in HRK million	Property and equipment					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2020	**98**	**2**	**-**	**-**	**100**	**-**
Balance as at 31 December 2021	**97**	**2**	**-**	**-**	**99**	**-**

28. Property, equipment and Investment properties (continued)

Acquisition costs

Own property, equipment and investment properties

BANK

in HRK million	Property and equipment – Acquisition costs					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**735**	**294**	**218**	**-**	**1,247**	**8**
Additions (+)	34	24	32	-	90	-
Disposals (-)	(2)	(28)	(8)	-	(38)	(1)
Reclassification	(6)	6	-	-	-	-
Balance as at 31 December 2020	**761**	**296**	**242**	**-**	**1,299**	**7**
Additions (+)	17	20	34	-	71	-
Disposals (-)	(4)	(16)	(8)	-	(28)	-
Reclassification	-	-	-	-	-	-
Assets held for sale	(3)	-	-	-	(3)	(7)
Balance as at 31 December 2021	**771**	**300**	**268**	**-**	**1,339**	**-**

Rights of use: property, equipment and investment properties

BANK

in HRK million	Property and equipment – Acquisition costs					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**104**	**15**	**-**	**-**	**119**	**-**
Additions (+)	42	4	-	-	46	-
Disposals (-)	(30)	(2)	-	-	(32)	-
Balance as at 31 December 2020	**116**	**17**	**-**	**-**	**133**	**-**
Additions (+)	17	7	-	-	24	-
Disposals (-)	(3)	(10)	-	-	(13)	-
Balance as at 31 December 2021	**130**	**14**	**-**	**-**	**144**	**-**

Accumulated depreciation

Own property, equipment and investment properties

BANK

in HRK million	Property and equipment – Accumulated depreciation					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**(256)**	**(206)**	**(84)**	**-**	**(546)**	**(5)**
Depreciation (-)	(15)	(27)	(36)	-	(78)	-
Disposals (+)	1	30	6	-	37	-
Impairment	-	(1)	-	-	(1)	-
Reclassification	2	(2)	-	-	-	-
Balance as at 31 December 2020	**(268)**	**(206)**	**(114)**	**-**	**(588)**	**(5)**
Depreciation (-)	(15)	(26)	(44)	-	(85)	-
Disposals (+)	3	15	8	-	26	-
Impairment	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Assets held for sale	2	-	-	-	2	5
Balance as at 31 December 2021	**(278)**	**(217)**	**(150)**	**-**	**(645)**	**-**

28. Property, equipment and Investment properties (continued)

Rights of use: property, equipment and investment properties

BANK

	Property and equipment – Accumulated depreciation					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2020	**(14)**	**(3)**	**-**	**-**	**(17)**	**-**
Depreciation (-)	(20)	(3)	-	-	(23)	-
Disposals (+)	5	1	-	-	6	-
Balance as at 31 December 2020	**(29)**	**(5)**	**-**	**-**	**(34)**	**-**
Depreciation (-)	(16)	(2)	-	-	(18)	-
Disposals (+)	3	3	-	-	6	-
Balance as at 31 December 2021	**(42)**	**(4)**	**-**	**-**	**(46)**	**-**

Carrying amounts

Own property, equipment and investment properties

BANK

	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2020	**493**	**90**	**128**	**-**	**711**	**2**
Balance as at 31 December 2021	**493**	**83**	**118**	**-**	**694**	**-**

Rights of use: property, equipment and investment properties

BANK

	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2020	**87**	**12**	**-**	**-**	**99**	**-**
Balance as at 31 December 2021	**88**	**10**	**-**	**-**	**98**	**-**

In the reporting period, expenditures in the amount of HRK 119 million and 112 million for the Group and the Bank respectively (2020: HRK 134 million for the Group and the Bank) are capitalised in the carrying amount of fixed assets during their construction. The contractual commitments for purchase of fixed assets amounted to HRK 20 million for the Group and the Bank as of 31 December 2021 (2020: HRK 18 million for the Group and the Bank).

As of 31 December 2021, the Group's property and equipment amounted to HRK 1,179 million (2020: HRK 1,236 million). The carrying amount of property and equipment of HRK 208 million (2020: HRK 241 million) was leased under operating lease of which the amount of HRK 206 million (2020: HRK 239 million) relates to movable property, and the reamining amount of HRK 2 million (2020: HRK 2 million) relates to land and buildings.

As of 31 December 2021, the Bank's property and equipment amounted to HRK 792 million (2020: HRK 810 million). The carrying amount of property and equipment of HRK 13 million (2020: HRK 13 million) relates to land and buildings leased under operating lease.

28. Property, equipment and Investment properties (continued)

Fair values of non-financial assets

					GROUP
in HRK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets whose Fair Value is disclosed in the notes					
2021					
Investment property	3	5	-	-	5
2020					
Investment property	5	6	-	-	6

					BANK
in HRK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets whose Fair Value is disclosed in the notes					
2021					
Investment property	-	-	-	-	-
2020					
Investment property	2	2	-	-	3

For non-financial assets owned by the Group the valuations are carried out using the comparative and investment methods. Assessment is made on basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

Information about Fair values of assets held for sale is provided in Note 42 Assets held for sale and liabilities associated with assets held for sale

29. Intangible assets

Goodwill

Goowill arises from business combinations whereby a subsidiary is acquired. Subsequently, goodwill is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. For more details on measurement of goodwill at the acquisition date refer to Note 37 Subsidiaries.

Other intangible assets

In addition to goodwill, the Group's intangible assets include computer software, customer relationships and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following inital recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the Group, these are customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years	
	2020	2021
Software	4	4
Core banking software	6	6
Other intangible assets	5	5

Impairment of intangible assets including goodwill

Goodwill arising on acquisition of a business is carried at cost as established, as the date of acquisition of the business less accumulated subsequent impairment losses, if any.
Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss.
The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU, to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is derived based on the amount of equity allocated to CGU taking into account any goodwill and unamortised intangible assets recognised at the time of business combination if they are allocated to the CGU.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. When available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

29. Intangible assets (continued)

The estimation of future earnings distributable to shareholders is based on financial plans for CGUs as agreed by the management taking into account the fulfilment of the respective regulatory capital requirements. The planning period range is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value (TV).

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates applied to calculate present values have been determined based on the capital asset pricing model (CAPM). According to CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

When the recoverable amount of CGU is less than its carrying amount, the difference is recognized as an impairment loss in the statement of profit or loss and reported under the line item ‘Other operating result’. The impairment loss is allocated first to writing down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the remaining individual assets of the CGU, though not to an amount lower than their fair value less costs of disposal. Impairment loss is not recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Acquisition costs

					GROUP
	Acquisition costs				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2020	**607**	**181**	**262**	**289**	**1,339**
Additions (+)	-	-	51	23	74
Disposals (-)	-	-	-	(10)	(10)
Disposal of group	-	-	-	(2)	(2)
Reclassification	-	-	1	(1)	-
Balance as at 31 December 2020	**607**	**181**	**314**	**299**	**1,401**
Additions (+)	-	-	41	16	57
Disposals (-)	-	-	(1)	(6)	(7)
Disposal of group	-	-	-	-	-
Reclassification	-	-	-	-	-
Currency translation	-	-	(1)	-	(1)
Balance as at 31 December 2021	**607**	**181**	**353**	**309**	**1,450**

Accumulated depreciation

					GROUP
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2020	**(435)**	**(181)**	**(155)**	**(192)**	**(963)**
Amortisation (-)	-	-	(28)	(30)	(58)
Disposals (+)	-	-	-	9	9
Disposal of group	-	-	-	1	1
Reclassification	-	-	(1)	1	-
Balance as at 31 December 2020	**(435)**	**(181)**	**(184)**	**(211)**	**(1,011)**
Amortisation (-)	-	-	(38)	(31)	(69)
Disposals (+)	-	-	1	5	6
Disposal of group	-	-	-	-	-
Reclassification	-	-	-	-	-
Impairment	(48)	-	-	(1)	(49)
Balance as at 31 December 2021	**(483)**	**(181)**	**(221)**	**(238)**	**(1,123)**

29. Intangible assets (continued)

Carrying amounts

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2020	172	-	130	88	390
Balance as at 31 December 2021	124	-	132	71	327

Goodwill and customer relationship carrying amount in whole relates to Erste Card Club d.o.o.

Acquisition costs

					BANK
	Acquisition costs				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2020	-	-	205	117	322
Additions (+)	-	-	38	6	44
Disposals (-)	-	-	-	(8)	(8)
Reclassification	-	-	1	(1)	-
Balance as at 31 December 2020	-	-	244	114	358
Additions (+)	-	-	35	5	40
Disposals (-)	-	-	-	(1)	(1)
Reclassification	-	-	-	-	-
Balance as at 31 December 2021	-	-	279	118	397

Accumulated depreciation

					BANK
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2020	-	-	(119)	(82)	(201)
Amortisation (-)	-	-	(23)	(7)	(30)
Disposals (+)	-	-	-	8	8
Reclassification	-	-	(1)	1	-
Balance as at 31 December 2020	-	-	(143)	(80)	(223)
Amortisation (-)	-	-	(33)	(7)	(40)
Disposals (+)	-	-	-	1	1
Reclassification	-	-	-	-	-
Balance as at 31 December 2021	-	-	(176)	(86)	(262)

Carrying amounts

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2020	-	-	101	34	135
Balance as at 31 December 2021	-	-	103	32	135

Software acquired column relates to core banking system.

29. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2021 and 2020 addressed the subsidiary Erste Card Club d.o.o. (CGU).

For these purposes we used discounted cash flow method, based on budgeted figures of Erste Card Club d.o.o. for the period of 2021 till 2026. Discount rate applied to determine the value in use was 11.90% (2020: 12.77%).

The business of Erste Card Club d.o.o. records a recovery in 2021 after the COVID crisis in 2020 interrupted the stable development of business in previous years. In challenging business environment, regulatory requirements, digital technologies, new foreign competition (TPP and cross-border acquirers) and especially the pressure of merchants on MSC fees will make card business and its profitability more uncertain after 2021. In the periods after 2023, a decrease in operating income is expected in Erste Card Club d.o.o. due to the market situation, the announced entry into EMU and due to further competitive pressure on cooperation with merchants and customers, and the volume of transactions and margins. Due to these expectations, the Management Board reduced part of the estimated operating income in periods 2024-2026, which resulted in impairment of its investments in this subsidiary and an impairment of goodwill of Erste Card Club d.o.o. in consolidated financial statements in the amount of HRK 48 million in 2021 (2020: nil).

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2021 and 2020 on the main variables (terminal growth rate and terminal cost of equity):

2021	Risk free rate		
TV growth rate	11.40%	11.90%	12.40%
1.8%	1,408	1,391	1,375
2.3%	1,413	1,395	1,379
2.8%	1,420	1,400	1,383

2020	Risk free rate		
TV growth rate	12.27%	12.77%	13.27%
1.8%	1,660	1,633	1,609
2.3%	1,679	1,650	1,624
2.8%	1,700	1,668	1,640

Amount by which recoverable amount is less than carrying amount in 2021 for Erste Card Club d.o.o. is HRK 48 million.

30. Other assets

Inventory

The repossessed asset is classified as 'other assets' and measured in accordance with the requirements of IAS 2 'Inventories' if the asset is intended for sale in the ordinary course of business. Namely, it is recognized at an acquisition cost equal to its fair value as estimated and documented upon repossession. Upon each subsequent reporting date, it is measured at lower of cost and net realizable value (expected selling price less costs to sell).

Gains or losses resulting from sale are recognised in the statement of profit or loss and presented under the line item 'Other operating result' in the statement of profit or loss, together with costs of sales and other costs incurred in selling the assets.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Prepayments and accrued income	34	40	14	24
Inventories	379	280	336	240
Value adjustments of inventories	(93)	(98)	(62)	(67)
Sundry assets	81	102	30	54
Other assets	**401**	**324**	**318**	**251**

In the line 'Inventories' the Group holds repossessed assets (collaterals obtained in foreclosure procedures) which the Group has the intention to sell.
In 2021, the impairment of inventories, shown as expense in the reporting period was recognised in amount of HRK 41 million (2020: HRK 24 million) for the Group and in amount of HRK 37 million (2020: HRK 16 million) for the Bank.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of profit or loss in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of profit or loss under the line item 'Rental income from investment properties and other operating leases'.

31. Finance leases

The Group leases movable property to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments are as follows:

		GROUP
in HRK million	**2020**	**2021**
Outstanding lease payments	2,690	2,780
Non-guaranteed residual values	-	-
Gross investment	**2,690**	**2,780**
Unrealised financial income	(178)	(176)
Net investment	**2,512**	**2,604**
Present value of non-guaranteed residual values	-	-
Present value of outstanding lease payments	**2,512**	**2,604**

The maturity analysis of lease by residual maturities under IFRS 16:

				GROUP
		2020		2021
in HRK million	**Gross investment**	**Present value of outstanding lease payments**	**Gross investment**	**Present value of outstanding lease payments**
< 1 year	1,247	1,170	976	899
1 – 2 years	539	509	699	670
2 – 3 years	410	381	513	484
3 – 4 years	284	260	322	299
4 – 5 years	142	126	189	173
> 5 years	68	66	81	79
Total	**2,690**	**2,512**	**2,780**	**2,604**

During 2021, Group recognised interest income on finance lease receivables in the amount of HRK 100 million (2020: HRK 102 million).

31. Finance leases (continued)

Finance lease receivables

The analysis of the gross carrying amount (GCA) and of related credit loss allownaces (CLA) of finance lease receivables per impairment buckets as of 31 December 2021 and 31 December 2020 is provided in the table below:

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2021											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	56	1	-	-	57	-	-	-	-	-	57
Credit institutions	1	-	-	-	1	-	-	-	-	-	1
Other financial corporations	10	1	-	-	11	-	-	-	-	-	11
Non-financial corporations	1,480	455	54	-	1,989	(8)	(21)	(22)	-	(51)	1,938
Households	472	63	11	-	546	(1)	(3)	(3)	-	(7)	539
Total	**2,019**	**520**	**65**	**-**	**2,604**	**(9)**	**(24)**	**(25)**	**-**	**(58)**	**2,546**

											GROUP
	GCA					CLA					
in HRK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	70	2	-	-	72	-	-	-	-	-	72
Credit institutions	1	-	-	-	1	-	-	-	-	-	1
Other financial corporations	11	1	-	-	12	-	-	-	-	-	12
Non-financial corporations	1,329	557	60	-	1,946	(4)	(15)	(26)	-	(45)	1,901
Households	399	68	14	-	481	(1)	(3)	(3)	-	(7)	474
Total	**1,810**	**628**	**74**	**-**	**2,512**	**(5)**	**(18)**	**(29)**	**-**	**(52)**	**2,460**

The movement in the credit loss allowances for finance lease receivables in the reporting period is provided in the table below:

									GROUP
in HRK million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2021								Dec 2021
Stage 1	(5)	(6)	1	3	(2)	-	-	-	(9)
Stage 2	(18)	-	1	(6)	(1)	-	-	-	(24)
Stage 3	(29)	-	6	-	(2)	-	-	-	(25)
POCI	-	-	-	-	-	-	-	-	-
Total	**(52)**	**(6)**	**8**	**(3)**	**(5)**	**-**	**-**	**-**	**(58)**

									GROUP
in HRK million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2020								Dec 2020
Stage 1	(5)	(4)	1	1	2	-	-	-	(5)
Stage 2	(2)	-	-	(10)	(6)	-	-	-	(18)
Stage 3	(19)	-	1	(1)	(10)	-	-	-	(29)
POCI	-	-	-	-	-	-	-	-	-
Total	**(26)**	**(4)**	**2**	**(10)**	**(14)**	**-**	**-**	**-**	**(52)**

During the process of credit risk assessment, the Company applies prudent methods and assessment models in the risk assessment process. To evaluate a portion of the lessees, the Company uses an internally developed system in the form of score cards as well as the Group's internal system. The internal evaluation system for natural persons and sole traders with single-entry bookkeeping consists of four grades for non-default clients and one grade for default clients. For other clients, the Group's evaluation system is used that has thirteen grades for non-default clients and one grade for default clients.

31. Finance leases (continued)

Finance lease receivables (continued)

For the purpose of simplified presentation of the credit risk exposure, the grades obtained in this way are internally divided into four risk levels: low risk indicates a high probability of collection; moderate risk is when the debtor's financial situation is stable but there may be a limited negative impact resulting from an undesired economic situation; moderately high risk is when the debtor is vulnerable to negative financial and economic impacts and therefore needs to be monitored and sufficient collateralisation needs to be ensured. High risk relates to the occurrence of a default event.

In column 'Additions' increases of CLA due to the initial recognition of finance lease receivables during the current reporting period are disclosed. Releases of CLA following the derecognition of the related finance lease receivables are reported in column 'Derecognitions'.

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered reassignments of the related finance lease receivables from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The profit and loss neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net) Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages for finance lease receivables

		GROUP
in HRK million	**2020**	**2021**
Transfers between Stage 1 and Stage 2	**625**	**249**
To Stage 2 from Stage 1	588	142
To Stage 1 from Stage 2	37	107
Transfers between Stage 2 and Stage 3	**15**	**25**
To Stage 3 from Stage 2	12	19
To Stage 2 from Stage 3	3	6
Transfers between Stage 1 and Stage 3	**32**	**6**
To Stage 3 from Stage 1	31	5
To Stage 1 from Stage 3	1	1

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2021 and not fully derecognized by 31 December 2021 amounts to HRK 910 million for the Group and nil for the Bank (2020: HRK 741 million for the Group and nil for the Bank).

The GCA of the finance lease receivables that were held at 1 January 2021 and fully derecognized (matured) during the year 2021 amounts to HRK 994 million for the Group and nil for the Bank (2020: HRK 884 million for the Group and nil for the Bank).

The principal collateral of finance lease receivables is the leased asset whose legal owner during the leasing contract period is the Group. Pursuant to relevant risk management policies, satisfactory collaterals are obtained from clients.

32. Operating leases

Under operating leases, the Group and the Bank has entered into commercial leases on premises, vehicles and equipment.

Maturity analysis of lease payments from operating leases under IFRS 16

		GROUP		BANK
in HRK million	**2020**	**2021**	**2020**	**2021**
< 1 year	77	66	2	3
1 – 2 years	42	35	2	2
2 – 3 years	28	23	2	1
3 – 4 years	15	12	1	1
4 – 5 years	5	5	1	1
> 5 years	1	1	-	-
Total	**168**	**142**	**8**	**8**

For information about rental income please refer to Note 7 Rental income from investment properties and other operating leases.

Group as a lessee

Under IFRS 16, Group as a lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right of use asset is initially measured at cost. The cost comprises the amount of initial measurement of the lease liability (including any lease payments made at or before the commencement date), less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right of use assets are presented as part of ‘Property and equipment’ in the statement of financial position and depreciation cost as part of the line item ‘Depreciation and amortisation’ in the statement of profit or loss. The right of use asset is in scope of impairment requirements in IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee’s incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity’s rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and is derived from existing bank data from the lending business. The single property rate represents a surcharge to the market rate based on the quality of the single property.
Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. In the statement of financial position, the lease liabilities are presented in the line item ‘Lease liabilities’. Interest expense decreases over the lease term and it is presented as part of ‘Other similar expenses’ under the line ‘Net interest income’ in the statement of profit or loss.

The Group primarily rents real estate’s such as buildings and land for branches and parking lots. In addition, movables such as IT equipment are rented for business operations. For details related to right of use assets capitalized in the statement of financial position arising from leases where the Group is lessee, please see Note 28 Property, plant and equipment.

Group as a lessee (continued)

Maturity analysis of lease liabilities based on undiscounted cash flows

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
< 1 year	17	17	17	19
1 – 5 years	58	57	60	57
> 5 years	32	31	31	30
Total	**107**	**105**	**108**	**106**

During 2021, interest expenses on lease liabilities were recognised in the amount of HRK 2 million for the Group and the Bank (2020: HRK 2 million for the Group and the Bank).

In 2021, expenses in the amount of HRK 337 thousand for the Group and HRK 382 thousand for the Bank relating to short term leases, (2020: HRK 305 thousand for the Group and HRK 242 thousand for the Bank) for which the recognition exemption of IFSR 16 applies, were recognised. In addition, expenses in the amount of HRK 13 million for the Group and HRK 10 million for the Bank relating to leases of low value items, for which the recognition exemption of IFSR 16 applies, were recognized (2020: HRK 14 million for the Group and HRK 11 million for the Bank).

Total cash outflow for leases in 2021 were HRK 34 million for the Group and HRK 36 million for the Bank (2020: HRK 34 million for the Group and HRK 41 million for the Bank).

Commitments for future cash outflows which are not reflected in the measurement of lease liabilities amounted HRK 1 million for the Group and nil for the Bank (2020: 0.1 million HRK for the Group and nil for the Bank). The Group had no restrictions or covenants imposed by leases or sales and lease back transactions as of 31 December 2021 and 31 Decemeber 2020.

Accruals, provisions, contingent liabilities and legal proceedings

33. Other liabilities

	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Prepayments received from debtors	198	179	170	149
Salaries and bonuses payable	165	210	135	171
Deferred income and accrued fee expenses	101	76	7	6
Payables to State Agency for deposit	24	8	20	5
Sundry liabilities	161	158	92	107
Other liabilities	**649**	**631**	**424**	**438**

Deferred income outstanding at 31 December 2021 includes 'contract liabilities' in accordance with IFRS 15 in amount of HRK 35 million for the Group and HRK 2 million for the Bank (2020: HRK 55 million for the Group and HRK 2 million for the Bank). Revenue recognised in the reporting year 2021 that was included in the contract liability balance at the beginning of the period amounts to HRK 44 million for the Group and HRK nil for the Bank. (2020: HRK 37 million for the Group and nil for the Bank).

The item 'Sundry liabilities' mainly contains outstanding settlement liabilities as well as other liabilities from employee benefits.

34. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and and the amount of the obligation can be estimated reliably.
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.
In the statement of financial position, provisions are presented under the line 'Provisions'. They include credit risk loss provisions for financial guarantees and loan commitments given as well as provisions for litigation and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees under IFRS 9 requirements are presented in the statement of profit or loss under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are presented in the statement of profit or loss under the line item 'Other operating result'.

Long-term employee benefits

Long-term employee benefits are all benefits given by the Group in exchange for services rendered by employees which become due in more than 12 months from the period of services rendered to which they relate.

Obligations for defined retirement benefit and jubilees are recognised in the amount of net present value determined by using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date.
Actuarial gains or losses in respect of pension benefit provisions are recognized in full in the period in which they occur. Remeasurement of actuarial gains or losses related to pension benefits are recognised in other comprehensive income and the amounts of remeasurements accumulated in other comprehensive income are not reclassified to profit or loss
Actuarial gains or losses in provisions for jubilee benefits are recognised in the statement of profit or loss in the period in which they occur. Remeasurement of jubilee defined-benefit plans are recognised in the statement of profit or loss and presented under the line item 'Personnel expenses'.

34. Provisions (continued)

Financial guarantees

In the ordinary course of business, the Group provides performance guaranties, financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party.
Financial guarantees fall under the scope of IFRS 9 impairment model and derecognition requirements.
Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model and reported in the statement of financial position under the line item 'Provisions'.
The fee received is recognised in the statement of profit or loss, in the line item 'Fee and commission income' under 'Net fee and commission income' on a quarterly basis, over the life of the guarantee given.

If Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk is guaranteed. The Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

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

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Long-term employee provisions	16	17	11	12
Pending legal issues	416	224	403	214
Provision for commitments and guarantees given	150	168	131	158
CLA for loan commitments and financial guarantees in Stage 1	69	94	60	88
CLA for loan commitments and financial guarantees in Stage 2	39	55	36	54
CLA for loan commitments and financial guarantees – Defaulted	42	19	35	16
Other provision	-	-	-	-
Provisions	**582**	**409**	**545**	**384**

a) Provision for commitments and guarantees given

							GROUP
in HRK million	**As of**	**Additions**	**Derecognitions**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2021						**Dec 2021**
Stage 1	69	82	(17)	(9)	(30)	(2)	94
Stage 2	39	-	(7)	25	(2)	-	55
Defaulted	42	-	(15)	1	(6)	(3)	19
Total	**150**	**82**	**(39)**	**17**	**(38)**	**(5)**	**168**

34. Provisions (continued)

a) Provision for commitments and guarantees given (continued)

GROUP

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2020						Dec 2020
Stage 1	67	63	(12)	(2)	(47)	-	69
Stage 2	15	-	(6)	16	14	-	39
Defaulted	22	-	(7)	2	25	-	42
Total	**104**	**63**	**(25)**	**16**	**(8)**	**-**	**150**

BANK

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2021						Dec 2021
Stage 1	60	79	(16)	(8)	(27)	-	88
Stage 2	36	-	(6)	24	-	-	54
Defaulted	35	-	(14)	-	(5)	-	16
Total	**131**	**79**	**(36)**	**16**	**(32)**	**-**	**158**

BANK

in HRK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2020						Dec 2020
Stage 1	54	60	(10)	-	(44)	-	60
Stage 2	13	-	(6)	14	15	-	36
Defaulted	13	-	(7)	1	28	-	35
Total	**80**	**60**	**(23)**	**15**	**(1)**	**-**	**131**

b) Long-term employee provisions

GROUP

in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2019	**5**	**8**	**13**
Service cost	1	1	2
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	2	2
Adjustments in financial assumptions	-	2	2
Present value of long-term employee benefit obligations, 31 December 2020	**6**	**10**	**16**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	1	1
Adjustments in financial assumptions	-	1	1
Present value of long-term employee benefit obligations, 31 December 2021	**6**	**11**	**17**

BANK

in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2019	**3**	**6**	**9**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	2	2
Adjustments in financial assumptions	-	2	2
Present value of long-term employee benefit obligations, 31 December 2020	**3**	**8**	**11**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Actuarial gains/losses recognised in income	-	1	1
Adjustments in financial assumptions	-	1	1
Present value of long-term employee benefit obligations, 31 December 2021	**3**	**9**	**12**

34. Provisions (continued)

Actuarial assumptions

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2020	2021
Interest rate	1.35	1.35
Expected increase in retirement benefits	6.85	7.11

The expected retirement age for each employee was individually calculated on the basis of their current age and average of retirement age, which is for men 61 and for women 60.
Obligations were calculated in accordance with the mortality tables entitled Life tables for the Republic of Croatia 2010-2012 Issued by Croatian Bureau of Statistics.

Sensitivity to Key Assumption

The following table presents how the reasonably possible changes of individual parameters effect post-employment benefit obligations as of year-end 2021.

in HRK million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0%	3	9	12
Change in discount rate - 1.0%	4	10	14

Impact on Cash Flows

The following table reflects the benefits expected to be paid by the defined benefit plans in each of the respective periods:

in HRK million	Pensions	Jubilee payments	Total
2022	1	1	2
2023	-	1	1
2024	-	1	1
2025	-	1	1
2026	-	1	1
2027 - 2031	-	1	1

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2021:

in years	Pensions	Jubilee payments	Total
Duration	16.35	11.09	13.72

34. Provisions (continued)

c) Sundry provisions (other than long term employee provisions)

Sundry provisions 2021

						GROUP
in HRK million	2020	Allocations	Use	Releases	Exchange rate	2021
Pending legal issues	416	101	(108)	(184)	(1)	224
Other provision	-	-	-	-	-	-
Total	**416**	**101**	**(108)**	**(184)**	**(1)**	**224**

						BANK
in HRK million	2020	Allocations	Use	Releases	Exchange rate	2021
Pending legal issues	403	100	(106)	(182)	(1)	214
Other provision	-	-	-	-	-	-
Total	**403**	**100**	**(106)**	**(182)**	**(1)**	**214**

Sundry provisions 2020

						GROUP
in HRK million	2019	Allocations	Use	Releases	Exchange rate	2020
Pending legal issues	377	61	(4)	(20)	2	416
Other provision	-	-	-	-	-	-
Total	**377**	**61**	**(4)**	**(20)**	**2**	**416**

						BANK
in HRK million	2019	Allocations	Use	Releases	Exchange rate	2020
Pending legal issues	364	60	(4)	(19)	2	403
Other provision	-	-	-	-	-	-
Total	**364**	**60**	**(4)**	**(19)**	**2**	**403**

In 2015 the Supreme Court of the Republic of Croatia, in a proceeding initiated 2012 by a local consumer protection association against eight Croatian banks incl. Erste Bank (hereinafter: Collective case), upheld the second instance verdict by which FX clauses in loan agreements with consumers were confirmed as valid but contractual provisions permitting unilateral change of the variable interest rates in CHF denominated consumer loans, used by the majority of sued banks until 2008, are null and void. In late 2016 Constitutional Court of the Republic of Croatia rescinded the part of the Supreme Court's decision relating to the validity of FX clauses, while it upheld the verdict regarding the (in) validity of the interest rate clause. In late 2017 the Supreme Court rescinded the second instance decision and returned the case with respect to the FX clause for a retrial to the court of second instance. In June 2018 after a retrial before the court of second instance, a verdict is reached upon which first instance verdict is confirmed, namely, the court ruled that that collective interests of the consumers have been breached and the Swiss franc contractual clause in loan contracts concluded between 2004 and 2008 was ruled as null and void (formally final verdict). The Bank filed an extraordinary remedy (judicial review) against the second instance court decision from July 2018. On September 3rd 2019 Supreme Court of the Republic of Croatia reached a verdict by which the Supreme Court rejected judicial review of defendant banks. The Bank appealed to such decision by filing constitutional complaint on October 22nd 2019 to the Constitutional Court of the Republic of Croatia. Constitutional complaint was rejected by the Constitutional Court's decision dated February 3rd 2021.The case has been finally resolved before national courts, and in July 2021 the Bank filed a request to the European Court of Human Rights, as the Bank considers that during the course of proceeding before national courts it's rights granted upon European Convention for the Protection of Human Rights and Fundamental Freedoms have been breached

The Bank has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognized the provision for expected expense

34. Provisions (continued)

c) Sundry provisions (other than long term employee provisions) (continued)

The Bank considers that, in relation to its financial position, possible material adverse effects of the verdicts reached in the Collective case had already been absorbed to the great extent within the framework of adjustment to the requirements as well as the conversion performed accordingly to the Consumer Credit Act (OG 75/09, 112/12, 143/13, 147/13, 09/15, 78/15, 102/15, 52/16) and the Credit Institutions Act (OG 159/2013, 19 / 2015, 102/2015). Namely, the Bank was under the Law obliged to offer the borrowers to convert their original CHF denominated loans into EUR loans, and after a borrower has accepted the offer and signed the conversion annex, the loan was retroactively converted into a EURO loan as if from the beginning the obligation of the loan was pegged to EURO, and accordingly all payments under a previous CHF loan were subsequently taken into account when the remaining amount of debt on the loan was being determined. The Bank is of an opinion that such standing of the Bank has been confirmed in the so-called Precedent proceeding conducted before the Supreme Court of the Republic of Croatia since December 2019, as the Court in March 2020 ruled that the conversion annexes are valid, despite the fact that the contractual provisions on the variable interest rate in the CHF denominated consumer loans and CHF FX clause were declared as null and void in the Collective case. Currently, a case is pending before the European Court of Justice (ECJ) for interpretation of relevant provisions of EU's Directive 93/13, and depending on the ECJ’s interpretation of the questions raised in that particular case, ECJ’s decision could be relevant for the issue of the right to a restitution of loan beneficiaries who have converted their loans

Further information on disclosed disputes are not being provided following the rule IAS 37.92 IFRS, in order to protect the position of the Bank in pending court cases.

In 2021 the Bank has managed to close a number of non-consumer related court proceedings in which the Bank was named defendant either by way of settlement or other forms of discharge of claims or liabilities, resulting in total release of provisions in the amount of HRK 182 million.

35. Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the Statement of Financial Position, they do involve credit risk and are therefore part of the overall risk of the Group and the Bank (see Note 27.4 Credit risk).

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Capital instruments, equity and reserves

36. Total equity

Share capital

As of 31 December 2021 and 2020 the share capital of the Bank comprises of 16,984,175 ordinary shares with a par value of HRK 100 per share. All the ordinary shares are ranked equally and bear one vote.

Capital reserves and share premium

The Bank's distributable and non-distributable reserves are determined by regulations of the CNB. As of 31 December 2021 and 2020 the legal reserves of the Bank disclose non-distributable reserves in amount of HRK 85 million.
Share premium as of 31 December 2021 and 2020 amounted to HRK 1,801 million.

Dividends

The dividends for 2021 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue.

As a consequence of the COVID-19 crisis, the European Central Bank as well as local national bank issued recommendations to restrict dividend payouts. As a result, no dividens were paid out by the Bank for 2019 and in May 2021 the Bank held its regular General Meeting at which Net profit for the year 2020 was distributed in the retained earnings.

As the Decision on the abolition of the Decision on the temporary restriction of distributions was adopted, at extraordinary General Meeting held on November 2, 2021, Decision on distribution of retained earnings, was made. By the Decision on distribution of retained earnings, the amount of HRK 161,009,979.00 was distributed as the dividend to the Bank's shareholders. The dividend is determined in amount of 9.48 % of the nominal share value, which makes HRK 9.48 per share.

Scope of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (subsidiaries) together with the Group's share in associates.

Merger and disposal in 2020

Merger under common control of Erste Factoring d.o.o.

Based on the Merger Agreement, decisions by General Assemblies and the Commercial Court Decision, and the approval of the Croatian Financial Services Supervisory Agency and Croatian National Bank the company Erste Factoring d.o.o. has been merged with the Bank as of 19th June 2020.
The Bank is an entity that has survived the merger. This is a business combination transaction under common controls as all merging companies are businesses in the meaning of IFRS 3, are controlled by the same party and the control is not transitory. No consideration transferred for this merger as the Bank holds 100% interest in subsidiary.
The transaction is a business combination under common control and was accounted for using a predecessor value method). The carrying amounts of assets and liabilities of Erste factoring d.o.o. from the consolidated financial statements of the Group were used to account for this transaction. The difference between carrying amount of the investment in subsidiary (recognised before the merger at cost in the separate FS of the surviving entity) and the carrying amount of the net assets of the acquired company is recognised in equity (in Retained earnings).
The merger was accounted for prospectively from the date of the transaction. The comparatives are not restated thus the comparatives present only the assets, liabilities, income, expenses of the acquirer the Bank; whereas assets, liabilities, income, expenses of acquiree (of Erste factoring d.o.o.) are incorporated only from the date of the merger which is 19th June 2020.

Effects of merger recognized at the merger date:

in HRK million	19 June 2020
Cash and cash balances	222
Non-trading financial assets at fair value through profit or loss	30
Equity instruments	6
Debt securities	24
Property and equipment	1
Current tax assets	3
Deferred tax assets	33
Trade and other receivables	443
Financial liabilities measured at amortised cost	(697)
Lease liabilities	(1)
Other liabilities	(14)
Elimination of carrying amount of the investments in subsidiary	(98)
Difference recognised in Equity, incl.:	
· **Retained earnings**	**(78)**

Disposal of Diners Club International Mak d.o.o.e.l.

On December 7th, 2020 the Erste Card Club¸d.o.o. sold its whole investment 100% in Diners Club International Mak d.o.o.e.l.

Until the date of disposal Diners Club International Mak d.o.o.e.l. had contributed HRK 1 million of loss for the year to the Group. These figures are consolidated within the Group Income statement.

in HRK million	30 November 2020
Carrying amounts of net assets over which control was lost	
Total assets	46
Total liabilities	(32)
Net assets derecognised	**14**
Consideration received	**5**
Loss on disposal	
Consideration received	5
Net assets derecognised	(14)
Loss on disposal	**(9)**
Cash inflow on disposal of the subsidiary	
Cash and cash equivalents disposed of	(4)
Cash consideration received	5
Net cash inflow arising on disposal	**1**

37. Subsidiaries

Subsidiaries are entities over which the Group has control.
All entities directly or indirectly controlled by the Group are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2021, and for the year then ended.

Subsidiaries are consolidated from the date on which control is obtained until the date when control is lost. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal.

The financial statements of the Bank's subsidiaries are prepared for the same reporting year as that of the Group and using consistent accounting policies. All intragroup transactions, balances, income and expenses as well as unrealised gains and losses are eliminated on consolidation.

Non-controlling interests represent the portion of total comprehensive income and net assets of subsidiaries that is not attributable, directly or indirectly, to the owners of the Bank. Non-controlling interest is presented separately in the consolidated statement of profit or loss, in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised in equity.

Control

IFRS 10 Consolidated Financial Statements defines the investor's control over an investee in terms of the investor having all of the following:

- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

Following the acquisition of the additional stake in Erste Leasing d.o.o. (the Company) in 2014, the Bank has ownership interest of 50% in the Company. The other 50% interest is held by Steiermarkische Bank und Sparkassen AG, Austria. The Group consolidates the Company based on the assessment of control over its relevant activities as defined by IFRS 10 Consolidated Financial Statements.
The Group has considered the local legislation and the Incorporation Act of the Company and concluded that in accordance with the Incorporation Act the Bank controls the Company. According to the Incorporation Act of the Company the decisions at the shareholders level, requiring unanimous decision-making, are of a protective nature. The decisions over relevant activities are taken by the simple majority of the Supervisory Board members of the Company, where the Bank has the right to appoint the majority of the members, and therefore controls the Company.
Furthermore, the Bank has the ability to use its power over the Company to affect the amount of the investor's returns. The Bank has established frame within which can keep track of The Company's portfolio movement as well as their entire business operations. Close collaboration has been established between sales business lines as well as constant coordination of risk management organisational parts, respectively strategic risk management of the Company has been implemented and strategic management of the entire Company's relevant business aspects.

37. Subsidiaries (continued)

Business combinations

Businesses combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses in the period to which they relate. The Group measures goodwill as the excess of the sum of the consideration transferred, the amount of any non-controlling interests, and the fair value of the previously held equity interest over the net of the acquisition date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.
If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a gain and presented in the statement of profit or loss under the line item 'Other operating result' in the year of acquisition.

For business combinations prior to 1 January 2010, acquisition costs were included in the cost of business combination and the goodwill represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the determined amount was recognized in profit or loss in the period of acquisition and presented in the statement of profit or loss under the line 'Other operating result'.

Non-controlling interests which are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets.

A merger or business combination involving entities or businesses under common control is a business combination in which all of the combining businesses are ultimately controlled by the same party or parties both before and after the merger or business combination, and that control is not transitory.
The predecessor method of accounting is used to account for the mergers and business combinations of entities (businesses) under common control.
Under the predecessor method, the acquirer incorporates the carrying values of assets (including goodwill, if any) and liabilities of the acquired or merged entity (i.e. entity which cease to exist as the result of the merger) from the consolidated financial statements of the highest level parent that has common control for which consolidated financial statements are prepared or the lower level parent company, if justifiable (for example, when the parent company merges with its subsidiary, the carrying amounts from the consolidated financial statements of the merging parent are used to account for the merger).
The acquired or merged entity's results and balance sheet are incorporated prospectively from the date on which the merger or business combination between entities under common control occurred. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated.
The difference between consideration transferred and the carrying amount of the net assets of the acquired company is recognised in equity (in Retained earnings).

37. Subsidiaries (continued)

Investment in subsidiaries

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in HRK million		2020	2021	2020	2021	2020	2021
Erste Nekretnine d.o.o.	Real estate business	100%	100%	9	8	1	1
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	1,168	1,288	659	611
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	44	3	40	2
Erste Bank AD, Podgorica	Credit institution	100%	100%	713	754	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	392	428	89	89
Erste Group IT HR d.o.o.	IT engineering	80%	80%	10	11	2	2
Direct control				**2,336**	**2,492**	**891**	**805**
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	30	37	24	24
Indirect control				**30**	**37**	**24**	**24**
Total subsidiaries:				**2,366**	**2,529**	**915**	**829**

The following subsidiaries have non material Non-Controlling Interest (NCI):
_ Erste & Steiermarkische S-leasing d.o.o. (50%)
_ Erste Group IT HR d.o.o. (20%)

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which the banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

38. Investments in associates

Associates are entities over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. As a general rule, IAS 28 indicates that if an entity holds, directly or indirectly 20% or more of the voting power of the investee, it is presumed that the entity has significant influence unless it can be clearly demonstrated that this is not the case.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, interest in an associate is recognised in the consolidated statement of financial position at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the individual investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the statement of profit or loss.

The Group's share of the associate's result is recognised in the consolidated statement of profit or loss in line item 'Net result from equity method investments'. The line item contains result from associates recorded by applying the equity method (measured as investor's share of profit or loss in the associates).
However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates accounted for using the equity method are reported under the line item 'Other operating result'.

38. Investments in associates (continued)

Investment in associates

Associates	Erste d.o.o.	
Country of Incorporation	Croatia	
Place of business	Croatia	
Main business activity	Management company for obligatory and voluntary pension fund	
in HRK million	2020	2021
Ownership % held	45.86%	45.86%
IFRS Classification	Associate	Associate
Reporting currency	HRK	HRK
Dividend income received	7	5
Impairment loss recognized (cumulative basis)	-	-
Impairment loss recognized (for the reporting year)	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)		
Financial assets	121	114
Other assets	17	19
Financial liabilities	0	0
Other liabilities	(29)	17
Revenue	66	(73)
Expense	(43)	46
Investment at cost	38	38
Reconciliation of investee's net assets against equity investment's carrying amount	21	24
Net assets attributable to the Group	59	62

Other disclosure matters

39. Related-party transactions

When considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties are done at arm's length. Therefore, the applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

The parent company (which is also the ultimate controlling parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB). Entity with significant influence on the Group is Steiermärkische Bank und Sparkassen AG.
The key management personnel include Management Board and other executive management while other includes close family members of key management personnel.

As at 31 December 2021 and 31 December 2020, balances outstanding with related parties comprised:

ASSET						GROUP
		2020			2021	
in HRK million	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
Entity with significant influence on the Group	-	-	3	-	-	4
Key management personnel	19	-	-	41	-	-
Parent company	28	67	172	43	27	198
Other EGB companies	3	-	4	5	-	8
Other	2	-	-	-	-	-
Associates	-	-	7	-	-	-
Total assets	**52**	**67**	**186**	**89**	**27**	**210**

LIABILITIES						GROUP
		2020			2021	
in HRK million	Deposits	Derivatives	Other	Deposits	Derivatives	Other
Entity with significant influence on the Group	3,037	-	-	2,989	-	-
Key management personnel	48	-	-	56	-	-
Parent company	3,188	42	4	4,393	40	76
Other EGB companies	246	-	-	180	-	68
Other	19	-	-	11	-	-
Associates	34	-	-	26	-	-
Total liabilities	**6,572**	**42**	**4**	**7,655**	**40**	**144**

ASSET						BANK
		2020			2021	
in HRK million	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
Entity with significant influence on the Group	-	-	-	-	-	-
Key management personnel	17	-	-	35	-	-
Parent company	28	67	65	42	27	77
Other EGB companies	3	-	3	3	-	5
Other	2	-	-	-	-	-
Subsidiaries	231	-	1	144	-	-
Associates	-	-	7	-	-	-
Total assets	**281**	**67**	**76**	**224**	**27**	**82**

Significant related party transactions are related to financial services and IT activities.

39. Related-party transactions (continued)

LIABILITIES						BANK
in HRK million	Deposits	Derivatives 2020	Other	Deposits	Derivatives 2021	Other
Entity with significant influence on the Group	711	-	-	572	-	-
Key management personnel	46	-	-	53	-	-
Parent company	1,920	42	3	3,775	40	1
Other EGB companies	170	-	-	176	-	-
Other	19	-	-	11	-	-
Subsidiaries	370	-	-	136	-	1
Associates	34	-	-	26	-	-
Total liabilities	**3,270**	**42**	**3**	**4,749**	**40**	**2**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Interest income	**22**	**20**	**23**	**22**
Entity with significant influence on the Group	-	-	-	-
Key management personnel	-	1	-	1
Parent company	22	19	21	19
Other EGB companies	-	-	-	-
Subsidiaries	-	-	2	2
Associates	-	-	-	-
Fee income	**23**	**27**	**78**	**100**
Parent company	4	8	3	6
Other EGB companies	17	16	16	16
Subsidiaries	-	-	57	75
Associates	2	3	2	3
Gains and losses from net trading result	**100**	**20**	**97**	**20**
Parent company	100	20	100	20
Subsidiaries	-	-	(3)	-
Other operating income	**29**	**28**	**16**	**19**
Parent company	8	8	5	5
Subsidiaries	-	-	10	13
Other EGB companies	21	20	1	1
Associates	-	-	-	-
Total income	**174**	**95**	**214**	**161**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2020	2021	2020	2021
Interest expense	**149**	**127**	**107**	**92**
Entity with significant influence on the Group	38	35	11	11
Key management personnel	-	-	-	-
Other EGB companies	1	1	-	-
Parent company	109	91	95	81
Subsidiaries	-	-	-	-
Associates	1	-	1	-
Fee expense	**38**	**33**	**38**	**36**
Parent company	6	6	6	5
Other EGB companies	29	26	22	20
Other	3	1	3	1
Subsidiaries	-	-	7	10
Other administrative expenses	**90**	**115**	**131**	**155**
Parent company	13	31	13	31
Other EGB companies	77	83	63	68
Key management personnel	-	1	-	1
Subsidiaries	-	-	55	55
Associates	-	-	-	-
Other operating expenses	**-**	**-**	**-**	**-**
Parent company	-	-	-	-
Total expenses	**277**	**275**	**276**	**283**

39. Related-party transactions (continued)

OFF BALANCE ITEMS in HRK million	GROUP		BANK	
	2020	2021	2020	2021
Guarantees issued	**25**	**20**	**25**	**20**
Parent company	24	20	24	20
Other EGB companies	1	-	-	-
Other	-	-	-	-
Subsidiaries	-	-	1	-
Undrawn credit and loan commitments	**4**	**6**	**102**	**152**
Key management personnel	3	5	1	2
Other EGB companies	1	1	-	-
Subsidiaries	-	-	101	150
Associates	-	-	-	-
Total commitments and contingent liabilities	**29**	**26**	**127**	**172**

Borrowings from parent company as of 31 December 2021, were HRK 919 million for the Group (2020: HRK 2,553 million) and HRK 226 million for the Bank (2020: HRK 1,285 million).

As of 31 December 2021, the Group has had no cash deposit as collateral within Amounts due to banks from the parent company (2020: HRK 489 million).

The remuneration of key management personnel were as follows:

in HRK million	GROUP		BANK	
	2020	2021	2020	2021
Management Board				
Wages and salaries	30	35	11	12
of which contributions to pension fund	3	5	1	1
Bonuses	11	34	6	25
Other key management personnel				
Wages and salaries	25	25	25	25
of which contributions to pension fund	4	7	4	7
Bonuses	2	-	2	-
Total remuneration	**68**	**94**	**44**	**62**

40. Share-based payments

Phantom Share Program

On yearly basis, however subject to a separate yearly annual approval process each year, the Group grants a bonus to selected employees (variable remuneration component) for services rendered during the year (performance year). The payment is only made if the regulatory requirements in respect of financial result and capital requirements (RAS indicators) are met, both for Erste Group Bank AG and the Group. If the individual bonus exceeds a certain limit, the final payment amount of at least 50% of the individual bonus determined at the end of the performance year depends on the development of the average, volume-weighted daily price of Erste Group Bank AG shares in subsequent years ("Phantom Share Program").

The corresponding portion of the individual bonus is converted into share equivalents (phantom shares) using the average, volume-weighted, daily share price of Erste Group Bank AG during the performance year. The share equivalents are divided into several tranches, which differ based on the development of the Erste Group Bank AG share price during the vesting period. At the end of the respective vesting period, the amount that will be paid out in the following year is determined from the corresponding number of share equivalents and the average price. In accordance with the Croatian National Bank's Decision on remuneration, the Bank and the Group introduced a cap on the maximum amount payable in a way that it cannot exceed the amount determined at the grant date. The vesting period corresponds to the performance year. Part of the bonus converted into share equivalents (phantom shares) is paid out in a year following the vesting period, while the remaining part is paid out in equal tranches over the next five years (retention period).

The Phantom Share Program meets the criteria for share-based payment with cash settlement in accordance with IFRS 2.

40. Share-based payments (continued)

Since the Group receives the entire work service in the respective performance year, the estimated amount of the variable remuneration for stock equivalents is recognized as a liability at fair value. The final determination of the calculated and allocated share equivalents takes place in the following year. The liability for share equivalents, that have not yet been paid out, is continuously measured at fair value, up to the cap limit. until it is paid out. Changes in fair value up to the final allocation in subsequent years are recognized in profit or loss. To determine the fair value, the number of share equivalents not yet paid out on the balance sheet date, is multiplied by the estimated average price of Erste Group Bank AG share for the respective year of payment. The estimated average share prices for the respective payment year are determined using an Option pricing model (Black-Scholes model). The main parameters are the share price of the Erste Group Bank AG share on the balance sheet date and the expected dividend payments up to the date of payment. As of 31 December 2021, the valuation of the liability is based on the average weighted daily share price of Erste Group Bank AG of the year 2021 in the amount of EUR 33.08 (2020: EUR 21.81) per share.

It is expected that 43,045 share equivalents with a fair value of HRK 12 million will be granted to eligible employees for the Group and 34,208 share equivalents with a fair value of HRK 10 million will be granted to eligible employees for the Bank (2020: 36,445 share equivalents with a fair value of HRK 6 million for the Group and 32.139 share share equivalents with a fair value of HRK 5 million for the Bank).
The total expense recorded for the Phantom Share Program in the reporting period amounts to HRK 12 million for the Group and HRK 10million for the Bank (2020: HRK 6 million for the Group and HRK 5 million for the Bank), the book value of the liability as of the balance sheet date is HRK 30 million for the Group and HRK 23 million for the Bank (2020: HRK 25 million for the Group and HRK 19 million for the Bank).

Employee Share Program

In December 2021, a new employee share program was announced to the Group employees. As part of this program, employees are entitled to free shares of Erste Group Bank AG in an amount equivalent to EUR 350 net of tax, provided that the Annual General Meeting of Erste Group Bank AG 2022 decides to distribute dividends. Employees with an active employment contract as of December 31, 2021, who were employed for more than 6 months in 2021 at that date, are entitled to receive free shares (service condition). The entitlement also depends on the achievement of predefined minimum performance criteria at the level of the local companies and at the Erste Group Bank AG level. These were achieved for 2021 (performance condition).

Since the payment is made in Erste Group Bank AG shares, not own shares of the Group, the transaction is accounted for as cash-based payment with settlement by the Group using Erste Group Bank AG equity instruments. The expected number of free shares granted under this program for the period is 33,308 for the Group and 25,322 for the Bank. The estimated fair value of these shares with associated personnel expenses on the valuation date is HRK 15 million for the Group and HRK 12 million for the Bank and is essentially based on the EUR 350 multiplied by the number of employees who are entitled to the free shares. The corresponding entry for these personnel expenses was made in the Other liabilities.

41. Audit fees and tax consultancy fees

The following table contains fundamental audit fees by the auditors in the financial years 2021 and 2020:

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Audit fees	6	5	3	3
Total	**6**	**5**	**3**	**3**

In the period from 1 January 2021 to 31 December 2021 the auditors provided two permissible non-audit services to the Bank. They are consultat services for annual update of the documentation related to Multi Issuer Program and comfort letter for bond issue on international market. Total fee for provided non-audit services is not material.

42. Assets held for sale and liabilities associated with assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months from the date of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary), they are referred to as a disposal group held for sale.

Assets classified as held for sale and assets belonging to the disposal group held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal group held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The carrying amount of assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 are measured in accordance with the applicable IFRSs before the fair value of less costs to sell of the disposal group is measured. Accordingly, financial assets and financial liabilities included in the disposal group are measured at amortised cost in accordance with IFRS 9.

Property, plant and intangible assets are not depreciated or amortised once classified as held for sale. Assets held for sale related to property, are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell. The fair values are determined by experts with recognised and relevant professional qualification.

	GROUP		BANK	
in HRK million	**2020**	**2021**	**2020**	**2021**
Assets held for sale	-	336	-	3
Liabilities associated with assets held for sale	-	261	-	-

As of the end of 2021, line item 'Assets held for sale' includes mainly disposal group (Erste Card d.o.o,. Slovenia) in amount of HRK 333 million (2020: HRK 0).

Disposal group held for sale (ERSTE CARD d.o.o., Slovenia)

Due to strategic guidelines of Erste Card Club d.o.o. and focus on the market in Republic of Croatia the activities regarding the sale of its fully owned subsidiary – Erste Card d.o.o., Slovenia were initiated. In October 2021 Erste Card Club d.o.o. signed an agreement for the sale of Erste Card d.o.o., Slovenia to Banka Sparkasse d.d. Slovenia, a related party.

The agreed selling price amounts to approximately HRK 67.7 million (9 EUR million at the EUR/HRK exchange rate of 7,517174 from 31 December 2021). Due to the procedural aspects of obtaining formal approval of the transaction by the supervising authorities in Austria and Slovenia, its closure date is expected by the end of the 2nd quarter of 2022.

Having met the qualifying criteria of IFRS 5, Erste Card d.o.o., Slovenia is presented in Group consolidated financial statements for the financial year ending 31 December 2021 as a disposal group held for sale and reported under the balance sheet line items 'Assets held for sale' and 'Liabilities associated with assets held for sale'. In accordance with the presentation requirements of IFRS 5, the assets and liabilities of Erste Card d.o.o., Slovenia are neither reclassified nor represented in the statements of financial position of prior years.

As Erste Card d.o.o., Slovenia does not fulfil any of the criteria stipulated in IFRS 5.32, it is not classified as 'discontinued operation'.

The disposal group is measured at the consolidated level according to IFRS 5 at carrying amount. As the selling contract had been signed before the end of 2021, the best indication for fair value of the disposal group is the agreed transaction price. The agreed price of approximately HRK 67.7 million (EUR 9 million) has been found higher than the net equity of Erste Card d.o.o., Slovenia in the amount of HRK 37 million as of 31 December 2021.
The disposal group is disclosed in segment reporting as ALM&LLC.

42. Assets held for sale and liabilities associated with assets held for sale (continued)

The carrying amounts of major classes of assets and liabilities of Erste Card d.o.o., Slovenia as of 31 December 2021 are as follow:

in HRK million	2021
Assets	
Cash and cash balances	1
Financial assets at amortised cost	207
Property and equipment	10
Intangible assets	3
Tax assets	3
Trade and other receivables	105
Other assets	4
Total assets	**333**
Liabilities	
Financial liabilities measured at amortised cost	257
Finance lease liabilities	8
Provisions	5
Tax liabilities	1
Other liabilities	25
Total liabilities	**296**

The agreed transaction price is subject to pre-closing price adjustments. It is expected that operating business performance of Erste Card d.o.o., Slovenia in the period from 1 January 2022 until the closing of the transaction will not lead to any deductions from the agreed transaction price, and thus no further material adjustments to the carrying amount of the disposal group are expected. Moreover, there is no uncertainty as to the ability of the buyer to pay the purchase price.
Other comprehensive income includes in total HRK 121 thousand of cumulative expenses relating to Erste Card d.o.o., Slovenia, comprising HRK 86 thousand negative currency translation reserve and HRK 35 thousand negative actuarial loss on defined pension plans.

43. Analysis of remaining maturities

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges less than 1 year and more than 1 year. The following table shows the contractual maturities as of 31 December 2021 and 31 December 2020.

43. Analysis of remaining maturities (continued)

				GROUP
in HRK million	2020		2021	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	8,673	-	14,530	-
Financial assets HfT	119	43	113	32
Derivatives	75	43	38	32
Other financial assets held for trading	44	-	75	-
Non-trading financial assets at FVPL	126	62	29	46
Equity instruments	-	36	-	10
Debt securities	126	26	29	36
Financial assets at FVOCI	1,456	9,822	2,020	9,927
Equity instruments	-	130	-	4
Debt securities	1,456	9,692	2,020	9,923
Financial assets at AC	16,891	39,263	17,347	41,981
Debt securities	180	2,181	151	4,784
Loans and advances to banks	4,041	-	4,312	94
Loans and advances to customers	12,670	37,082	12,884	37,103
Finance lease receivables	815	1,645	876	1,670
Trade and other receivables	1,117	26	1,268	2
Property, plant and equipment	-	1,236	-	1,179
Investment properties	-	5	-	3
Intangible assets	-	390	-	327
Investments in associates	-	59	-	62
Current tax assets	123	-	-	-
Deferred tax assets	-	197	-	207
Assets held for sale	-	-	336	-
Other assets	89	312	120	204
TOTAL ASSETS	**29,409**	**53,060**	**36,639**	**55,640**
Financial liabilities HfT	76	30	34	22
Derivatives	76	30	34	22
Financial liabilities measured at amortised cost	58,755	11,881	65,568	13,991
Deposits from banks	3,295	5,753	2,181	4,352
Deposits from customers	54,682	5,446	62,264	6,004
Debt securities issued	-	677	376	3,634
Other financial liabilities	778	5	747	1
Finance lease liabilities	23	79	22	77
Provisions	510	72	330	79
Tax liabilities	6	4	92	2
Liabilities associated with assets held for sale	-	-	261	-
Other liabilities	627	22	599	32
TOTAL LIABILITIES	**59,997**	**12,088**	**66,906**	**14,203**

43. Analysis of remaining maturities (continued)

				BANK
in HRK million	2020		2021	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	7,947	-	13,518	-
Financial assets HfT	119	43	113	32
Derivatives	75	43	38	32
Other financial assets held for trading	44	-	75	-
Non-trading financial assets at FVPL	8	61	24	46
Equity instruments	-	36	-	10
Debt securities	8	25	24	36
Financial assets at FVOCI	1,409	9,295	2,013	9,435
Equity instruments	-	114	-	4
Debt securities	1,409	9,181	2,013	9,431
Financial assets at AC	14,548	36,774	15,350	39,369
Debt securities	-	2,180	151	4,523
Loans and advances to banks	3,968	-	4,228	94
Loans and advances to customers	10,580	34,594	10,971	34,752
Trade and other receivables	596	-	692	-
Property, plant and equipment	-	810	-	792
Investment properties	-	2	-	-
Intangible assets	-	135	-	135
Investments in subsidiaries	-	891	-	805
Investments in associates	-	38	-	38
Current tax assets	112	-	-	-
Deferred tax assets	-	110	-	132
Assets held for sale	-	-	3	-
Other assets	26	292	63	188
TOTAL ASSETS	**24,765**	**48,451**	**31,776**	**50,972**
Financial liabilities HfT	76	30	34	22
Derivatives	76	30	34	22
Financial liabilities measured at amortised cost	54,025	9,277	60,950	11,428
Deposits from banks	1,555	3,654	1,017	2,225
Deposits from customers	52,307	4,946	59,358	5,569
Debt securities issued	-	677	376	3,634
Other financial liabilities	163	-	199	-
Finance lease liabilities	17	85	18	82
Provisions	490	55	320	64
Tax liabilities	-	-	74	-
Other liabilities	403	21	405	33
TOTAL LIABILITIES	**55,011**	**9,468**	**61,801**	**11,629**

44. Events after balance sheet date

The conflict in the parts of Eastern Ukraine which started in 2014 has not been resolved to date. In December 2021-January 2022, the news on the increased concentration of Russian military forces alongside the Russian-Ukrainian border started to raise concerns about possible Russian military intervention into Ukraine. In late February 2022, the conflict escalated with significant numbers of troops becoming more active in Ukraine and a state of emergency was declared in Ukraine. As of March, the sanctions against Russia were imposed by many countries of the Western world, aiming to respond to the gravity of Russia's violation of the sovereignty and territorial integrity of Ukraine, and grave human rights violations that have been committed in Ukraine and in Russia.

The evolving Russia-Ukraine situation does not impact the Group and the Bank directly. In cooperation with the Erste Group, the Group and the Bank have been adequately and actively monitoring the situation between Russia and Ukraine for several months and have no direct exposure to the state or to entities from Ukraine and Russia. Limits on Russian banks to which there is also no exposure at the Group and the Bank level (including local branches of Russian banks) have also been suspended. In addition, the Group and the Bank has identified clients on an individual level who could be indirectly more affected by the current situation, and there are no significant exposures in its portfolio in this regard either.

45. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2021				**GROUP**
Croatia	2,835	1,219	(221)	2,857
Montenegro	220	66	(5)	303
Slovenia	59	12	(2)	61
Total	**3,114**	**1,297**	**(228)**	**3,221**

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2020				**GROUP**
Croatia	2,724	428	(6)	2,896
Montenegro	216	47	(3)	297
North Macedonia	14	-	-	-
Slovenia	57	7	(1)	59
Total	**3,011**	**482**	**(10)**	**3,252**

Own funds and capital requirements

46. Own funds and capital requirements

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU)[1]. Both the CRD IV and CRD V were enacted in national law in Croatian Credit Institutions Act (ZOKI), as well as within various technical standards issued by the European Banking Authority (EBA).
All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derived from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation and for items where the regulatory treatment is not equal to the accounting requirements.
The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Regulatory scope of consolidation

The definition of entities to be consolidated for regulatory purposes are mainly defined in Articles 4 (1) (3) and (16) to (27) CRR in line with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.
The definition pursuant to CRR differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities, that are subject to full consolidation.

[1] Both CRD IV and CRR have been amended since the entry into force in 2014 inter alia with Directive (EU) 2019/878 (CRD V) as well as regu-lations (EU) 2019/876 (CRR 2) and (EU) 2020/873 (CRR Quick Fix).

46. Own funds and capital requirements (continued)

Own funds

Own funds according to CRR consists of Common equity Tier 1 (CET 1), Additional Tier 1 capital (AT 1) and Tier 2 capital (T2). According to article 92 CRR credit institutions are required to fulfil following requirements; CET 1 capital ratio in amount of 4.5%, Tier 1 capital ratio in amount of 6% and total capital ratio in amount of 8%.

Capital buffer requirements are set out in section VII of the Credit institutions Act (ZOKI). Capital conservation buffer, countercyclical buffer, Globally Systemic Important Institutions buffer, Other Systemic Important Institutions and Systemic risk buffer are further specified in Credit Institutions Act section VII. All capital buffers have to be met entirely with CET1 capital. The sum of all CRD buffers applicable to a Bank is defined as the 'Combined Buffer Requirement' (CBR).

Article 117 of ZOKI requires that the Group and the Bank cover capital conservation buffer in amount of 2.5%. Besides capital conservation buffer the Group and the Bank have to establish systemic risk buffer in amount 1,5% in accordance with articles 129, 130, 131 and Other Systemic Important Institution (O-SII) buffer in the amount of 2% in accordance with articles 137, 138 and 139 of ZOKI.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP), to be held in the form of 56% of Common Equity Tier 1 (CET1) capital and 75% of Tier 1 capital.

Overview of capital requirements and capital buffers

	Dec 20	Dec 21
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Combined buffer requirement (CBR)	**6.00%**	**6.00%**
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.00%	0.00%
Systemic risk buffer	1.50%	1.50%
O-SII capital buffer	2.00%	2.00%
Minimum CET 1 requirement (incl.CBR)	10.50%	10.50%
Minimum Tier 1 requirement (incl.CBR)	12.00%	12.00%
Minimum Own Funds requirement (incl.CBR)	14.00%	14.00%
Pillar 2	**2.90%**	**2.90%**
Minimum CET1 requirement	1.62%	1.62%
Minimum T1 requirement	2.18%	2.18%
Minimum Own Funds requirement	2.90%	2.90%
Total CET 1 requirement for Pillar 1 and Pillar 2	**12.12%**	**12.12%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**14.18%**	**14.18%**
Total Capital requirement for Pillar 1 and Pillar 2	**16.90%**	**16.90%**

46. Own funds and capital requirements (continued)

Capital structure according to the EU regulation 575/2013 (CRR)

		GROUP		BANK	
in HRK million	**Article pursuant to CRR**	**2020**	**2021**	**2020**	**2021**
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26(1)(a)(b), 27-30, 36(1)(f), 42	3,499	3,499	3,499	3,499
Retained earnings	26(1)(c), 26(2)	6,051	6,689	4,650	5,067
Accumulated other comprehensive income	4(1)(100), 26(1)(d)	371	139	341	142
Other reserves		85	85	85	85
Common equity tier 1 capital (CET1) before regulatory adjustments		**10,006**	**10,412**	**8,575**	**8,793**
Own CET1 instruments	36(1)(f), 42	-	-	-	-
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33(1)(c), 33(2)	(2)	(2)	(2)	(2)
Value adjustments due to the requirements for prudent valuation	34, 105	(12)	(14)	(11)	(14)
Goodwill	4(1)(113), 36(1)(b), 37	(172)	(125)	-	-
Other intangible assets	4(1)(115), 36(1)(b), 37(a)	(197)	(139)	(135)	(98)
DTA that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36(1)(c), 38	(26)	-	(26)	-
IRB shortfall of credit risk adjustments to expected losses	36(1)(d), 40, 158, 159	-	-	-	-
Insufficient coverage for non-performing exposures		-	(11)	-	(10)
CET1 capital elements or deductions – other		(70)	-	(60)	-
Additional deductions of CET1 Capital due to Article 3 CRR		-	(68)	-	(61)
Common equity tier 1 capital (CET1)	**50**	**9,527**	**10,053**	**8,341**	**8,608**
Additional tier 1 capital (AT1)	**61**	**-**	**-**	**-**	**-**
Tier 1 capital = CET1 + AT1	**25**	**9,527**	**10,053**	**8,341**	**8,608**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62(a), 63-65, 66(a), 67	386	133	386	133
IRB excess of provisions over expected losses eligible	62(d)	228	242	239	251
Tier 2 capital (T2)	**71**	**614**	**375**	**625**	**384**
Total own funds	**4(1)(118) and 72**	**10,141**	**10,428**	**8,966**	**8,992**
Capital requirement	**92(3), 95, 96, 98**	**4,349**	**4,509**	**3,723**	**3,883**
CET1 capital ratio	**92(2)(a)**	**17.5%**	**17.8%**	**17.9%**	**17.7%**
Tier 1 capital ratio	**92(2)(b)**	**17.5%**	**17.8%**	**17.9%**	**17.7%**
Total capital ratio	**92(2)(c)**	**18.7%**	**18.5%**	**19.3%**	**18.5%**

Risk structure according to EU regulation 575/2013 (CRR)

GROUP	2020		2021	
in HRK million	**Total risk (final)**	**Capital requirement (final)**	**Total risk (final)**	**Capital requirement (final)**
Total risk exposure amount	54,361	4,349	56,368	4,509
Risk-weighted assets (credit risk)	48,684	3,895	50,915	4,073
Standardised approach	10,728	858	10,655	852
IRB approach	37,956	3,036	40,260	3,221
Trading book, foreign FX risk and commodity risk	256	20	97	8
Operational risk	5,408	433	5,324	426
Exposure for CVA	13	1	32	3

46. Own funds and capital requirements (continued)

Risk structure according to EU regulation 575/2013 (CRR) (continued)

BANK	2020		2021	
in HRK million	Total risk (final)	Capital requirement (final)	Total risk (final)	Capital requirement (final)
Total risk exposure amount	46,533	3,723	48,540	3,883
Risk-weighted assets (credit risk)	42,347	3,388	44,462	3,557
Standardised approach	2,626	210	2,535	203
IRB approach	39,721	3,178	41,927	3,354
Trading book, foreign FX risk and commodity risk	144	12	48	4
Operational risk	4,030	322	3,998	320
Exposure for CVA	12	1	32	2

The Group fulfilled the capital requirements in 2021. In accordance with Art. 26 (2) CRR the item retained earnings includes the eligible profits of HRK 526,9 million (the Bank HRK 322,3 million) approved by the CNB by decision of 04 February 2022.

The position CET1 elements or deduction – Others include development of unaudited risk provisions during the year (EU No 183/2014) and insufficient coverage for non-performing exposures (NPE Backstop) covering the requirements from both Art. 36 para 1 (m) CRR in connection with Art. 47(c) CRR and the Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards regarding to disclosure of own funds requirements. Positions, which are not relevant for Group are not disclosed. Figures shown under full implementation of Basel 3 considered the current CRR.

At the end of 2021 total risk-weighted assets for credit risk at the Bank level amounted HRK 44,462 million, which is an increase by HRK 2,115 million compared to the previous year. The growth was influenced by increased exposures, mainly to corporate and sovereign clients, as well as several methodogical changes. Among latter, the most significant impact was recorded as a consequence of implementation of new Retail LGD methodology. Another considerable driver of credit RWA increase is related to CRR 2 implementation, with the most significant impact resulting from enhanced RWA calculation for CIU exposures. At Group level, credit RWA grew by HRK 2,231 million. No major changes were recorded in share of subsidiaries in total Group credit RWA.

The Group uses the standardised approach for the purposes of the calculating the capital requirements for market risk. The risk primarily arises from derivative transactions (FX Swap, FX Forward and Interest Rate Swap) with clients and capital requirements for currency risk based on the calculation of the total net foreign exchange position. Standardised approach for counterparty credit risk (SA-CCR) according to CRR II Art. 274 -280 is used to manage credit risk from derivatives.

The Bank is using the standardized approach (”TSA”) for the capital requirement calculation, according to CRR, as well as the Group Members Erste Card Club d.o.o. and Erste&Steiermärkische S-Leasing d.o.o., while other members apply Basic indicator approach (“BIA“). The Bank provides the operational risk capital requirement in such a way that it is constantly adequate to the type, range and complexity of its services as well as to its operational risk exposure or possible exposure within its scope of services.

Forms according to local requirements

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

Differences between forms (appendix 1) presented below on pages 242 to 251 and primary financial statements are presented in appendix 2 titled Differences between financial statements according to IFRS and local requirements.

Income statement			**GROUP**
In HRK million		**2020**	**2021**
1.	Interest income	2,327	2,262
2.	(Interest expenses)	282	259
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	1	1
5.	Fees and commissions income	925	1,068
6.	(Fees and commissions expenses)	231	259
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	199	226
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(14)	4
10.	Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting	-	-
12.	Exchange rate differences [gain or (-) loss], net	12	(5)
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
14.	Gains or (-) losses on derecognition of non-financial assets, net	6	17
15.	Other operating income	119	119
16.	(Other operating expenses)	53	47
17.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)**	**3,009**	**3,127**
18.	(Administrative expenses)	1,276	1,378
19.	(Cash contributions to resolution boards and deposit guarantee schemes)	136	35
20.	(Depreciation)	251	250
21.	Modification gains or (-) losses, net	(30)	(1)
22.	(Provisions or (-) reversal of provisions)	146	82
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	671	6
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	25	87
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	8	9
28.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
29.	**Profit or (-) loss before tax from continuing operations (17 – from 18 to 20 + 21- from 22 to 25 + from 26 to 28)**	**482**	**1,297**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	10	228
31.	**Profit or (-) loss after tax from continuing operations (29 – 30)**	**472**	**1,069**
32.	**Profit or (-) loss after tax from discontinued operations (33 – 34)**	**-**	**-**
33.	Profit or (-) loss before tax from discontinued operations	-	-
34.	(Tax expense or (-) income related to discontinued operations)	-	-
35.	**Profit or (–) loss for the year (31 + 32; 36 + 37)**	**472**	**1,069**
36.	Attributable to minority interest [non-controlling interests]	12	19
37.	Attributable to owners of the parent	460	1,050
STATEMENT OF OTHER COMPREHENSIVE INCOME			
38.	Income or (-) loss for the current year	472	1,069
39.	**Other comprehensive income (40+ 52)**	**35**	**(121)**
40.	**Items that will not be reclassified to profit or loss (from 41 to 47) + 50 + 51)**	**2**	**8**
41.	Tangible assets	-	-
42.	Intangible assets	-	-
43.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
44.	Fixed assets and disposal groups classified as held for sale	-	-
45.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income	2	9
47.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
49.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
50.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-

Income statement			**GROUP**
In HRK million		**2020**	**2021**
51.	Income tax relating to items that will not be reclassified	-	(1)
52.	**Items that may be reclassified to profit or loss (from 53 to 60)**	**33**	**(129)**
53.	Hedge of net investments in foreign operations [effective portion]	-	-
54.	Foreign currency translation	8	(2)
55.	Cash flow hedges [effective portion]	-	-
56.	Hedging instruments [not designated elements]	-	-
57.	Debt instruments at fair value through other comprehensive income	32	(153)
58.	Fixed assets and disposal groups classified as held for sale	-	-
59.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
60.	Income tax relating to items that may be reclassified to profit or (-) loss	(7)	26
61.	**Total comprehensive income for the current year (38 + 39; 62 + 63)**	**507**	**948**
62.	Attributable to minority interest [non-controlling interest]	12	19
63.	Attributable to owners of the parent	495	929

Income statement			BANK
In HRK million		2020	2021
1.	Interest income	1,859	1,821
2.	(Interest expenses)	221	209
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	11	11
5.	Fees and commissions income	597	713
6.	(Fees and commissions expenses)	164	194
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	192	223
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(18)	6
10.	Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting	-	-
12.	Exchange rate differences [gain or (-) loss], net	19	(5)
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net		
14.	Gains or (-) losses on derecognition of non-financial assets, net	(3)	12
15.	Other operating income	31	31
16.	(Other operating expenses)	32	23
17.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)**	**2,271**	**2,386**
18.	(Administrative expenses)	930	1,034
19.	(Cash contributions to resolution boards and deposit guarantee schemes)	121	26
20.	(Depreciation)	131	143
21.	Modification gains or (-) losses, net	(30)	(1)
22.	(Provisions or (-) reversal of provisions)	147	90
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	511	(25)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	48
25.	(Impairment or (-) reversal of impairment on non-financial assets)	17	37
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-
28.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
29.	**Profit or (-) loss before tax from continuing operations (17 – from 18 to 20 + 21- from 22 to 25 + from 26 to 28)**	**384**	**1,032**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	(6)	185
31.	**Profit or (-) loss after tax from continuing operations (29 – 30)**	**390**	**847**
32.	**Profit or (-) loss after tax from discontinued operations (33 – 34)**	**-**	**-**
33.	Profit or (-) loss before tax from discontinued operations	-	-
34.	(Tax expense or (-) income related to discontinued operations)	-	-
35.	**Profit or (–) loss for the year (31 + 32; 36 + 37)**	**390**	**847**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	390	847
STATEMENT OF OTHER COMPREHENSIVE INCOME		**-**	**-**
38.	Income or (-) loss for the current year	390	847
39.	**Other comprehensive income (40+ 52)**	**42**	**(105)**
40.	**Items that will not be reclassified to profit or loss (from 41 to 47) + 50 + 51)**	**1**	**6**
41.	Tangible assets	-	-
42.	Intangible assets	-	-
43.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
44.	Fixed assets and disposal groups classified as held for sale	-	-
45.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income	1	7
47.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
49.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
50.	Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
51.	Income tax relating to items that will not be reclassified	-	(1)
52.	**Items that may be reclassified to profit or loss (from 53 to 60)**	**41**	**(111)**
53.	Hedge of net investments in foreign operations [effective portion]	-	-
54.	Foreign currency translation	-	-
55.	Cash flow hedges [effective portion]	-	-
56.	Hedging instruments [not designated elements]	-	-
57.	Debt instruments at fair value through other comprehensive income	50	(135)
58.	Fixed assets and disposal groups classified as held for sale	-	-
59.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
60.	Income tax relating to items that may be reclassified to profit or (-) loss	(9)	24
61.	**Total comprehensive income for the current year (38 + 39; 62 + 63)**	**432**	**742**
62.	Attributable to minority interest [non-controlling interest]	-	-
63.	Attributable to owners of the parent	432	742

Statement of financial position

	In HRK million		GROUP
		2020	2021
	ASSETS		
1.	**Cash, cash balances and liabilities at central banks and other demand deposits (from 2 to 4)**	**8,673**	**14,530**
2.	Cash on hand	3,336	3,052
3.	Cash balances and liabilities at central banks	4,957	11,036
4.	Other demand deposits	380	442
5.	**Financial assets held for trading (from 6 to 9)**	**162**	**145**
6.	Derivatives	118	70
7.	Equity instruments	-	-
8.	Debt securities	44	75
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**188**	**75**
11.	Equity instruments	163	39
12.	Debt securities	25	36
13.	Loans and advances	-	-
14.	**Financial assets designated at fair value through profit or loss (15 + 16)**	**-**	**-**
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	**Financial assets at fair value through other comprehensive income (from 18 to 20)**	**11,278**	**11,947**
18.	Equity instruments	130	4
19.	Debt securities	11,148	11,943
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**59,757**	**63,144**
22.	Debt securities	2,361	4,935
23.	Loans and advances	57,396	58,209
24.	Derivatives – Hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	66	62
27.	Tangible assets	1,241	1,182
28.	Intangible assets	390	327
29.	Tax assets	320	207
30.	Other assets	394	324
31.	Fixed assets and disposal groups classified as held for sale	-	336
32.	**TOTAL ASSEST (1+5+10+14+17+21+ from 24 to 31)**	**82,469**	**92,279**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**106**	**56**
34.	Derivatives	106	56
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	**Financial liabilities designated at fair value through profit or loss (from 40 to 42)**	**-**	**-**
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	**Financial liabilities measured at amortised cost (from 44 to 46)**	**70,738**	**79,658**
44.	Deposits	69,176	74,801
45.	Debt securities issued	677	4,010
46.	Other financial liabilities	885	847
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	582	409
50.	Tax liabilities	10	94
51.	Share capital repayable on demand	-	-
52.	Other liabilities	649	631
53.	Liabilities included in disposal groups classified as held for sale	-	261
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**72,085**	**81,109**
	EQUITY	**0**	**-**
55.	Initial capital	1,698	1,698
56.	Share premium	1,801	1,801
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	371	139
60.	Retained profit	5,771	6,181
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	460	1,050
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	198	216
67.	**TOTAL EQUITY (from 55 to 66)**	**10,384**	**11,170**
68.	**TOTAL LIABILITIES AND EQUITY (54+67)**	**82,469**	**92,279**

Statement of financial position			BANK
In HRK million		2020	2021
	ASSETS		
1.	Cash, cash balances and liabilities at central banks and other demand deposits (from 2 to 4)	7,947	13,518
2.	Cash on hand	3,095	2,831
3.	Cash balances and liabilities at central banks	4,763	10,577
4.	Other demand deposits	89	110
5.	Financial assets held for trading (from 6 to 9)	162	145
6.	Derivatives	118	70
7.	Equity instruments	-	-
8.	Debt securities	44	75
9.	Loans and advances	0	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	69	70
11.	Equity instruments	44	34
12.	Debt securities	25	36
13.	Loans and advances	-	-
14.	Financial assets designated at fair value through profit or loss (15 + 16)	-	-
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	10,704	11,448
18.	Equity instruments	114	4
19.	Debt securities	10,590	11,444
20.	Loans and advances	-	-
21.	Financial assets at amortised cost (22 + 23)	51,918	55,411
22.	Debt securities	2,180	4,674
23.	Loans and advances	49,738	50,737
24.	Derivatives – Hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	936	843
27.	Tangible assets	812	792
28.	Intangible assets	135	135
29.	Tax assets	222	132
30.	Other assets	311	251
31.	Fixed assets and disposal groups classified as held for sale	-	3
32.	TOTAL ASSEST (1+5+10+14+17+21+ from 24 to 31)	73,216	82,748
	LIABILITIES		
33.	Financial liabilities held for trading (from 34 to 38)	106	56
34.	Derivatives	106	56
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	Financial liabilities measured at amortised cost (from 44 to 46)	63,404	72,478
44.	Deposits	62,462	68,169
45.	Debt securities issued	677	4,010
46.	Other financial liabilities	265	299
47.	Derivatives – Hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	545	384
50.	Tax liabilities	-	74
51.	Share capital repayable on demand	-	-
52.	Other liabilities	424	438
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	TOTAL LIABILITIES (33+39+43+ from 47 to 53)	64,479	73,430
	EQUITY		
55.	Initial capital	1,698	1,698
56.	Share premium	1,801	1,801
57.	Equity instruments issued other than capital	-	-
58.	Other equity instruments	-	-
59.	Accumulated other comprehensive income	342	142
60.	Retained profit	4,421	4,745
61.	Revaluation reserves	-	-
62.	Other reserves	85	85
63.	Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	390	847
65.	Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	-	-
67.	TOTAL EQUITY (from 55 to 66)	8,737	9,318
68.	TOTAL LIABILITIES AND EQUITY (54+67)	73,216	82,748

Statement of changes in equity

In HRK million | **GROUP**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensiv e income	Other items	Total
Opening balance [before restatement]	**1,698**	**1,801**	**-**	**-**	**371**	**5,771**	**-**	**85**	**-**	**460**	**-**	**-**	**198**	**10,384**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Opening balance (current period) (1 + 2 + 3)	**1,698**	**1,801**	**-**	**-**	**371**	**5,771**	**-**	**85**	**-**	**460**	**-**	**-**	**198**	**10,384**
Ordinary shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	-	-	-	-	-	(161)	-	-	-	-	-	-	(1)	(162)
Purchase/sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity instruments	**-**	**-**	**-**	**-**	**-**	**460**	**-**	**-**	**-**	**(460)**	**-**	**-**	**-**	**-**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Other increase or (-) decrease of equity instruments	**-**	**-**	**-**	**-**	**(111)**	**111**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the current year	**-**	**-**	**-**	**-**	**(121)**	**-**	**-**	**-**	**-**	**1,050**	**-**	**-**	**19**	**948**
Equity instruments increase or (-) decrease resulting from business combinations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance [current period] (from 4 to 20)	**1,698**	**1,801**	**-**	**-**	**139**	**6,181**	**-**	**85**	**-**	**1,050**	**-**	**-**	**216**	**11,170**

Statement of changes in equity

In HRK million **BANK**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensiv e income	Other items	Total
Opening balance [before restatement]	1,698	1,801	-	-	342	4,421	-	85	-	390	-	-	-	8,737
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	1,698	1,801	-	-	342	4,421	-	85	-	390	-	-	-	8,737
Ordinary shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue 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 share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity instruments	-	-	-	-	-	390	-	-	-	(390)	-	-	-	-
Share-based Payments	-	-	-	-	-	(161)	-	-	-	-	-	-	-	(161)
Other increase or (-) decrease of equity instruments	-	-	-	-	(95)	95	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	-	-	(105)	-	-	-	-	847	-	-	-	742
Equity instruments increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance [current period] (from 4 to 20)	1,698	1,801	-	-	142	4,745	-	85	-	847	-	-	-	9,318

Cash flow statements			GROUP
	In HRK million	**2020**	**2021**
	Operating activities – direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities – indirect method		
9.	Profit/(loss) before tax	482	1,297
	Adjustments:	-	-
10.	Impairment and provisions	862	145
11.	Depreciation	251	249
12.	Net unrealised (gains)/losses on financial assets and liabilities at fair value through statement of profit or loss	-	-
13.	(Profit)/loss from the sale of tangible assets	(1)	3
14.	Other non-cash items	1	1
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(572)	601
16.	Deposits with financial institutions and loans to financial institutions	894	(764)
17.	Loans and advances to other clients	(6,615)	(2,758)
18.	Securities and other financial instruments at fair value through other comprehensive income	(907)	(1,095)
19.	Securities and other financial instruments held for trading	142	(32)
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	46	244
21.	Securities and other financial instruments at fair value through statement of profit or loss	-	-
22.	Securities and other financial instruments at amortised cost	(757)	(2,586)
23.	Other assets from operating activities	1	89
24.	Deposits from financial institutions	(404)	(24)
25.	Transaction accounts of other clients	9,052	9,109
26.	Savings deposits of other clients	400	898
27.	Time deposits of other clients	(638)	(1,044)
28.	Derivative financial liabilities and other traded liabilities	69	(52)
29.	Other liabilities from operating activities	(235)	211
30.	Interest received from operating activities [indirect method]	2,143	2,224
31.	Dividends received from operating activities [indirect method]	-	7
32.	Interest paid from operating activities [indirect method]	(314)	(274)
33.	(Income tax paid)	(161)	(32)
34.	**Net cash flow from operating activities (from 1 to 33)**	**3,739**	**6,417**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(152)	(174)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	5	-
37.	Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
38.	Dividends received from investing activities	-	-
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**(147)**	**(174)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	-	-
42.	Net increase/(decrease) of debt securities issued	-	-
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(2)	(162)
46.	Other receipts/(payments) from financing activities	(19)	(19)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(21)**	**(181)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**3,571**	**6,062**
49.	**Cash and cash equivalents at the beginning of period**	**4,897**	**8,468**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**8,468**	**14,530**

Cash flow statements			BANK
	In HRK million	**2020**	**2021**
	Operating activities – direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities – indirect method		
9.	Profit/(loss) before tax	384	1,032
	Adjustments:	-	-
10.	Impairment and provisions	713	154
11.	Depreciation	131	143
12.	Net unrealised (gains)/losses on financial assets and liabilities at fair value through statement of profit or loss	0	-
13.	(Profit)/loss from the sale of tangible assets	(1)	(3)
14.	Other non-cash items	(7)	6
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(572)	601
16.	Deposits with financial institutions and loans to financial institutions	869	(750)
17.	Loans and advances to other clients	(6,096)	(2,307)
18.	Securities and other financial instruments at fair value through other comprehensive income	(936)	(1,132)
19.	Securities and other financial instruments held for trading	142	(32)
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	19	114
21.	Securities and other financial instruments at fair value through statement of profit or loss	-	-
22.	Securities and other financial instruments at amortised cost	(744)	(2,502)
23.	Other assets from operating activities	(53)	72
24.	Deposits from financial institutions	(397)	(39)
25.	Transaction accounts of other clients	9,135	8,625
26.	Savings deposits of other clients	435	894
27.	Time deposits of other clients	(770)	(1,009)
28.	Derivative financial liabilities and other traded liabilities	68	(52)
29.	Other liabilities from operating activities	(213)	567
30.	Interest received from operating activities [indirect method]	1,793	1,879
31.	Dividends received from operating activities [indirect method]	4	7
32.	Interest paid from operating activities [indirect method]	(253)	(222)
33.	(Income tax paid)	(122)	(18)
34.	**Net cash flow from operating activities (from 1 to 33)**	**3,529**	**6,028**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(112)	(108)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	222	38
37.	Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
38.	Dividends received from investing activities	-	-
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**110**	**(70)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	-	-
42.	Net increase/(decrease) of debt securities issued	-	-
43.	Net increase/(decrease) of Tier 2 capital instruments	-	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	-	(161)
46.	Other receipts/(payments) from financing activities	(26)	(21)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(26)**	**(182)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**3,613**	**5,776**
49.	**Cash and cash equivalents at the beginning of period**	**4,129**	**7,742**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**7,742**	**13,518**

	Off balance sheet items		
			GROUP
		2020	2021
1.	Guarantees	3,584	4,679
2.	Letters of credit	109	181
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	7,519	6,162
5.	Other risk off balance items	9	73
6.	Futures	-	-
7.	Options	2	-
8.	Swaps	6,546	7,208
9.	Forwards	2,523	1,918
10.	Other derivatives	-	-

	Off balance sheet items		
			BANK
		2020	2021
1.	Guarantees	3,131	4,159
2.	Letters of credit	108	181
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	4,872	4,884
5.	Other risk off balance items	9	73
6.	Futures	-	-
7.	Options	2	-
8.	Swaps	6,584	7,208
9.	Forwards	2,523	1,918
10.	Other derivatives	-	-

GROUP

Annual report (AR)	in HRK million	Statement of financial position (CNB)	in HRK million	Diff.	Explanation
Cash and cash balances	14,530	Cash on hand, Cash balances at Central bank and Other demand deposits	14,530	-	-
Financial assets held for trading	145	Financial assets held for trading	145	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	10	Non-trading financial assets at fair value through profit or loss- Equity instruments	39	(29)	AR – Non-trading financial assets at fair value through profit or loss- Debt securities
Non-trading financial assets at fair value through profit or loss – Debt securities	65	Non-trading financial assets at fair value through profit or loss- Debt securities	36	29	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	11,947	Financial assets at fair value through other comprehensive income	11,947	-	-
Financial assets at amortised cost – Loans and advances	54,393	Financial assets at amortised cost- Loans and advances	58,209	-	-
Trade and other receivables	1,270				
Finance lease receivables	2,546				
Financial assets at amortised cost – Debt securities	4,935	Financial assets at amortised cost- Debt securities	4,935	-	-
Investments in subsidiaries	-	Investments in associates, subsidiaries and joint ventures	62	-	-
Investments in associates	62				
Property and equipment	1,179	Tangible assets	1,182	-	-
Investment property	3				
Intangible assets	327	Intangible assets	327	-	-
Deferred tax assets	207	Tax assets	207	-	-
Other assets	324	Other assets	324	-	-
Assets held for sale	336	Non-current assets and disposal groups classified as held for sale	336	-	-
TOTAL ASSETS	**92,279**	**TOTAL ASSETS**	**92,279**	-	-

GROUP

Annual report (AR)	in HRK million	Statement of financial position (CNB)	in HRK million	Diff.	Explanation
Financial liabilities held for trading- Derivatives	56	Financial liabilities held for trading- Derivatives	56	-	-
Financial liabilities measured at amortised cost- Deposits	74,801	Financial liabilities measured at amortised cost- Deposits	74,801	-	-
Debt securities in issue	4,010	Debt securities in issue	4,010	-	-
Other financial liabilities	748				
Finance lease liabilities	99	Other financial liabilities	847	-	-
Provisions	409	Provisions	409	-	-
Tax liabilities	94	Tax liabilities	94	-	-
Other liabilities	631	Other liabilities	631	-	-
Liabilities associated with assets held for sale	261	Liabilities included in disposal groups classified as held for sale	261	-	-
Total equity	11,170	Total equity	11,170	-	-
TOTAL LIABILITIES AND EQUITY	**92,279**	**TOTAL LIABILITIES AND EQUITY**	**92,279**	**-**	**-**

					GROUP
Annual report (AR)	**in HRK million**	**Income statement (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Interest income	2,107				
Other similar income	155	Interest income	2,262	-	-
Interest expense	(204)				
Other similar expense	(55)	Interest expense	(259)	-	-
Fee and commission income	1,068	Fees and commissions income	1,068	-	-
Fee and commission expense	(259)	Fees and commissions expenses	(259)	-	-
Net trading result	221	Gains or losses on financial assets and financial liabilities held for trading, net	226	-	-
		Exchange differences [gain or loss], net	(5)		
Personnel expenses	(779)	Administrative expenses	(1,378)	2	CNB- Other operating expense
Other administrative expenses	(611)	Depreciation	(250)	21	AR- Other operating result
Depreciation and amortisation	(250)	Cash contributions to resolution boards and deposit guarantee schemes	(35)		-
Other operating result	(9)	Gains or losses from derecognition of non-financial assets, net	17		
Rental income from investment properties & other operating leases	66	Other operating income	119		
Net impairment loss on financial instruments	(167)	Other operating expense	(47)		
Gains/losses from derecognition of financial assets measured at amortised cost	-	Provisions or cancellation of provisions	(82)	(2)	AR – Other administrative expenses
		Impairment or reversal of impairment on financial assets not measured at FVPL	(6)		
		Modification gains or (-) losses, net	(1)	(21)	CNB - Cash contributions to resolution boards and deposit guarantee schemes
		Impairment of non-financial assets	(87)		
Net result from equity method investments	9	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	9	-	-
Dividend income	1	Dividend income	1	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	-	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	-	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	4	Gains/losses from financial instruments measured at fair value through profit or loss	4	-	-
Pre-tax profit from continuing operations	**1,297**	**PRE-TAX PROFIT**	**1,297**	**-**	**-**
Income tax	(228)	Taxes on income	(228)	-	-
NET PROFIT OF THE YEAR	**1,069**	**NET PROFIT FOR THE PERIOD**	**1,069**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Cash and cash balances	13,518	Cash on hand, Cash balances at Central bank and Other demand deposits	13,518	-	-
Financial assets held for trading	145	Financial assets held for trading	145	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	10	Non-trading financial assets at fair value through profit or loss- Equity instruments	34	(24)	AR – Non-trading financial assets at fair value through profit or loss- Debt securities
Non-trading financial assets at fair value through profit or loss – Debt securities	60	Non-trading financial assets at fair value through profit or loss- Debt securities	36	24	CNB – Equity instruments
Financial assets at fair value through other comprehensive income	11,448	Financial assets at fair value through other comprehensive income	11,448	-	-
Financial assets at amortised cost – Loans and advances	50,045	Financial assets at amortised cost- Loans and advances	50,737	-	-
Trade and other receivables	692				
Financial assets at amortised cost – Debt securities	4,674	Financial assets at amortised cost- Debt securities	4,674	-	-
Investments in subsidiaries	805	Investments in associates, subsidiaries and joint ventures	843	-	-
Investments in associates	38				
Property and equipment	792				
Investment property	-	Tangible assets	792	-	-
Intangible assets	135	Intangible assets	135	-	-
Deferred tax assets	132	Tax assets	132	-	-
Other assets	251	Other assets	251	-	-
Assets held for sale	3	Non-current assets and disposal groups classified as held for sale	3	-	-
TOTAL ASSETS	**82,748**	**TOTAL ASSETS**	**82,748**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Statement of financial position (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Financial liabilities held for trading- Derivatives	56	Financial liabilities held for trading- Derivatives	56	-	-
Financial liabilities measured at amortised cost- Deposits	68,169	Financial liabilities measured at amortised cost- Deposits	68,169	-	-
Debt securities in issue	4,010	Debt securities in issue	4,010	-	-
Other financial liabilities	199				
Finance lease liabilities	100	Other financial liabilities	299	-	-
Provisions	384	Provisions	384	-	-
Tax liabilities	74	Tax liabilities	74	-	-
Other liabilities	438	Other liabilities	438	-	-
Total equity	9,318	Total equity	9,318	-	-
TOTAL LIABILITIES AND EQUITY	**82,748**	**TOTAL LIABILITIES AND EQUITY**	**82,748**	**-**	**-**

					BANK
Annual report (AR)	**in HRK million**	**Income statement (CNB)**	**in HRK million**	**Diff.**	**Explanation**
Interest income	1,766				
Other similar income	55	Interest income	1,821	-	-
Interest expense	(157)				
Other similar expense	(52)	Interest expense	(209)	-	-
Fee and commission income	713	Fees and commissions income	713	-	-
Fee and commission expense	(194)	Fees and commissions expenses	(194)	-	-
Net trading result	218	Gains or losses on financial assets and financial liabilities held for trading, net	223	-	-
		Exchange differences [gain or loss], net	(5)		
Personnel expenses	(581)	Administrative expenses	(1,034)	1	CNB- Other operating expense
Other administrative expenses	(457)	Depreciation	(143)	21	AR- Other operating result
Depreciation and amortisation	(143)	Cash contributions to resolution boards and deposit guarantee schemes	(26)		-
Other operating result	(13)	Gains or losses from derecognition of non-financial assets, net	12		
Rental income from investment properties & other operating leases	4	Other operating income	31		
Net impairment loss on financial instruments	(144)	Other operating expense	(23)		
Gains/losses from derecognition of financial assets measured at amortised cost	-	Provisions or cancellation of provisions	(90)	(1)	AR – Other administrative expenses
		Impairment or reversal of impairment on financial assets not measured at FVPL	25	(21)	CNB - Cash contributions to resolution boards and deposit guarantee schemes
		I Modification gains or (-) losses, net	(1)		
		(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(48)		
		Impairment of non-financial assets	(37)		
Dividend income	11	Dividend income	11	-	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	-	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	-	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	6	Gains/losses from financial instruments measured at fair value through profit or loss	6	-	-
Pre-tax profit from continuing operations	**1,032**	**PRE-TAX PROFIT**	**1,032**	**-**	**-**
Income tax	(185)	Taxes on income	(185)	-	-
NET PROFIT OF THE YEAR	**847**	**NET PROFIT FOR THE PERIOD**	**847**	**-**	**-**