TRANSLATION

HRVATSKA POŠTANSKA BANKA P.L.C.

Unaudited interim financial statements for the period from January 01 to June 30 2021

Zagreb, December 2021

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Responsibilities of the Management Board for the preparation and approval of the financial statements for the period ended June 30, 2021

Management Board is responsible for preparation of financial statements for the period ended June 30, 2021 r that give a true and fair view of the financial position of the Bank and their results in accordance with applicable standards, and is responsible for keeping the proper accounting records required for the preparation of these financial statements at any given time. The Management Board has overall responsibility for taking such measures to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Management Board is responsible for selecting appropriate accounting policies that comply with applicable accounting standards and for their consistent application; making reasonable and prudent judgments and estimates; and preparing the financial statements on an going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is obliged to submit the interim financial statements for the period ended June 30, 2021 to the Supervisory Board for approval. If the Supervisory Board gives consent to the interim financial statements for the period ended June 30, 2021, they are approved by the Management Board and the Supervisory Board of the Bank. Interim financial statements presented on pages 7 – 34 were approved by the Management Board on December 21, 2021.

As a sign of confirmation, interim financial statements are signed by persons authorized for representation, as follows:

Signed on behalf of Hrvatska poštanska banka, p.l.c.

Marko Badurina

President of the Management Board

Ivan Soldo

Member of the Management Board

Anto Mihaljević

Member of the Management Board

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Report on review of interim financial information

To the owners of Hrvatska poštanska banka d.d.

Introduction

We have reviewed the accompanying financial information for half-year period ended on 30 June 2021 of Hrvatska poštanska banka d.d., Zagreb („the Bank") which are comprised of Statement of financial position on 30 June 2021, Profit and Loss Account, for half-year period then ended, as well as the notes to the financial information, which together constitute interim financial information of the Bank.

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with basis for preparation as stated in notes 1a) „Statement of Compliance" and 1b) „Basis for preparation of financial information".

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with basis for preperation as stated in notes 1a) „Statement of compliance" and 1b) „Basis for preparation of financial information".

Basis for preparation and restrictions on use

Without qualifying our conclusion, we draw attention to the notes 1a) „Statement of compliance" and 1b) „Basis for preparation of financial information" which describe the basis for preparation of the accompanying interim financial information. Interim financial information are prepared for the purpose of support - meeting the conditions of the Croatian National Bank for the calculation of the capital requirement. Consequently, interim financial information has not been prepared for any other purpose. Our report is intended exclusively for the Croatian National Bank and the Bank and may not be used by third parties other than the Bank and the Croatian National Bank.

In Zagreb, 21 December 2021

BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb

Ivan Čajko, Member of the Managment Bord and ceritified auditor

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HRVATSKA POŠTANSKA BANKA

in HRK '000	Notes	30.06.2021	31.12.2020
ASSETS			
Cash and Amounts Due from Banks		5,562,940	3,684,902
Mandatory Reserve with Croatian National Bank		1,274,718	1,219,157
Loans and Receivables from Banks		319,726	379,399
Financial Assets at Fair Value through Profit and Loss		737,414	758,106
Financial Assets at Fair Value through Other Comprehensive Income		4,383,831	4,158,035
Financial Assets at Amortized Cost		2,854	1,975
Loans and Receivables from Customers	2	14,635,226	14,722,770
Investments in subsidiaries		9,761	9,761
Property, Equipment and Assets with the right of use		259,116	258,356
Investment Property		65,993	65,993
Intangible Assets		96,350	91,039
Tax Prepayment		1,477	2,639
Other Assets		115,726	111,635
TOTAL ASSETS		**27,465,133**	**25,463,766**
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss		73	21
Deposits from Banks		94,761	96,635
Customer Deposits	3	22,376,396	21,118,434
Borrowings		1,758,682	1,466,641
Provisions for Liabilities and Expenses		371,774	116,424
Deferred Tax Liabilities, Net		52,029	23,483
Other Liabilities		207,409	169,023
TOTAL LIABILITIES		**24,861,124**	**22,990,662**
EQUITY			
Share Capital		1,214,775	1,214,775
Treasury shares		(477)	(477)
Reserves for treasury shares		4,477	4,477
Statutory Reserve		40,010	30,907
Other Reserves		657,992	576,064
Fair Value Reserve		226,917	242,231
Revaluation Reserve		22,286	22,744
Retained Earnings		438,029	382,384
TOTAL EQUITY		**2,604,010**	**2,473,104**
TOTAL LIABILITIES AND EQUITY		**27,465,133**	**25,463,766**

The significant accounting policies and other notes on pages 9 – 34 form an integral part of these financial information.

Profit and Loss Account
For the period from January 01 to June 30, 2021

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	01.01. – 30.06.2021	01.01. – 30.06.2020
	HRK '000	HRK '000
Interests and Similar Income	285,692	293,899
Interests and Similar Expense	(17,602)	(25,837)
Net Interest Income	**268,090**	**268,062**
Fees and Commissions Income	218,466	213,554
Fees and Commissions Expense	(130,051)	(130,906)
Net Fees and Commissions Income	**88,414**	**82,648**
Net (Losses) / Gains from Financial Instruments at Fair Value through Profit and Loss	33,387	(17,387)
Gains from Financial Instruments at Fair Value through Other Comprehensive Income	-	35,036
Net Gains from Dealing in Foreign Currencies	25,135	25,201
Other Operating Income	2,034	(270)
Trading and Other Income	**60,555**	**42,581**
Operating Income	**417,060**	**393,291**
General and Administrative Expense	(204,641)	(209,537)
Depreciation and Amortization	(33,724)	(40,343)
Impairment Losses on Loans and Receivables from Customers and Other Assets	21,905	(63,976)
Provisions for Liabilities and Expenses	(22.474)	57,354
Operating Expenses	**(238,934)**	**(256,503)**
PROFIT BEFORE TAX	**178,126**	**136,788**
Income Tax (Expense)	(31,450)	(21,814)
PROFIT FOR THE YEAR	**146,676**	**114,974**

The significant accounting policies and other notes on pages 9 - 34 form an integral part of these financial Information.

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HRVATSKA POŠTANSKA BANKA

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska Poštanska Bank P.L.C. Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva 4, Zagreb. The Bank is the parent of the Hrvatska Poštanska Bank Group (“the Group).

The Bank has control over following subsidiaries that make the HPB Group:

	Industry	State	Ownership as of June 30, 2021 %
HPB Invest d.o.o.	Investment Funds Management	Croatia	100.00
HPB-nekretnine d.o.o.	Real Estate Agency and Construction	Croatia	100.00

This financial statements have been prepared in order to fulfill requirements of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 and meeting the requirements of the Croatian National Bank for the calculation of capital requirements and therefore do not represent the full scope of the report, ie do not include consolidated financial statements since subsidiaries are not material for the purposes of prudential requirements. Therefore this financial statements includes Bank's separate financial statements as required by International Accounting Standard 27 “Separate Financial Statements”.

This financial statements were approved by the Management Board on December 21, 2021 for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are summarized below. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards, in the description of the Bank's accounting policies, individual Standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 30 June 2021.

The accompanying financial statements are prepared in accordance with statutory requirements and only as general information and are not intended for any particular purpose or transaction. Therefore, users are advised not to rely exclusively on them in making any decisions, and to conduct further examinations prior to making a decision.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) ***Statement of Compliance***

Interim financial statements refers to the unaudited financial report of Hrvatska poštanska banka joint stock company for the period of 6 months ended June 30, 2021, together with a description of significant accounting policies and significant notes (hereinafter "Financial statements"). The financial statements have been prepared in accordance with the Bank's accounting policies and regulations of the CNB. In accordance with the CNB regulations, the financial statements of banks and other credit institutions are prepared in accordance with the accounting regulations for banks in the Republic of Croatia based on the principles set out in International Financial Reporting Standards (IFRS) adopted by the European Union applicable on June 30, 2021. This financial statements have been prepared in accordance with the above regulations for banks.

The Management Board considers that this financial statements meets the requirements of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 and therefore the financial information does not represent the full scope of the report as prepared in accordance with IAS 34 Financial Reporting for the period during the year.

CNB's accounting regulations are based on International Financial Reporting Standards adopted by European union. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Suspended interest represents already accrued unpaid interest on asset for which individual impairment has been recognized. For the part of the exposure for which the passage of time of default is longer than two years the Bank carry out the full impairment of accrued unpaid interest through profit and loss, suspend the following accrual in the statement of financial position and present the interest in the off-balance up until the customer makes the payment in cash. The stated is not in accordance with the IFRS 9 „Financial instruments“ which requires the interest income from impaired financial assets to be accrued using the method of the effective interest rate.
- In line with CNB Decision on classification of exposures into risk stages and the manner in which credit losses are determined which was put into force at 1 January 2018 („Decision on exposure classification“), CNB prescribes minimum provision for impairment loss for certain exposures for which impairment has been specifically recognized, that may be different from an impairment loss calculated in accordance with IFRS.
- In line with the Decision on exposure classification the CNB prescribes the minimum impairment factors/haircuts and collection deadlines for each collateral type for purposes of estimating future cash flows on the basis of collection through collateral. The stated future cash flows can be different from the future cash flows calculated in accordance with the IFRS.
- In line with the Decision on exposure classification the CNB prescribes minimum total exposure impairment of risk sub-stages A-1 and A-2, which can be different from the impairment loss calculated in accordance with the IFRS.
- In line with the CNB's Decision on Provisions for Court Cases against the Credit Institution of March 31, 2010 there are minimum requirements for the provisions for court cases the credit institution is obliged to fulfill. In line with the Decision a credit institution must diversify court cases into risk categories depending on the loss probability and form provisions accordingly. However, in certain cases required reserves may differentiate from the ones calculated in accordance with the IFRS.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) ***Statement of Compliance (continued)***

CNB's Decision entered into force as at 1 January 2020 modified the accounting framework. In accordance with the article 21 (2) Decision on exposure classification no minimum total exposure impairment of risk sub-stages A-1 and A-2, which can be different from the impairment loss calculated in accordance with the IFRS is defined. Bank has determined that other above mentioned differences in methodology which are still existing as at 31 December 2020 do not deviate in any material respect from amounts determined in accordance with IFRS (difference amounts cca HRK 15 million as at 31 December 2020).

Significant accounting policies applied in preparation of these financial statements are set out hereafter.

a) Basis for preparation of financial statements

The interim financial statements were prepared for the purpose of support - meeting the conditions of the Croatian National Bank for the calculation of the capital requirement. The statement of financial position as at June 30, 2021, Profit and Loss Account for the half-year period, as well as the notes to the financial statements, together constitute the financial statements of the Bank's interim period.

These reports represent non-general purpose financial information of the Bank. The financial reports have been prepared for the reporting period from 1 January to 30 June 2021, and is in accordance with the applicable accounting regulations applicable to banks in the Republic of Croatia.

The financial reports are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, at fair value through other comprehensive income, derivative financial instruments and property and repossessed assets except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at revaluation model, amortized or historical cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account as they value the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated and separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis for preparation of financial statements (continued)

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis for preparation of financial statements (continued)

New Standards, Interpretation and Changes of Published Standards

(I) New and amended standards and interpretations in force in the current period

The accounting policies applied in the preparation of this financial statements are consistent with those applied in the preparation of the Bank's annual financial statements as at December 31, 2020, except for the adoption of the new standards applicable from January 1, 2021. The Bank has not previously adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

Although these changes are applicable for the first time in 2020, they do not have a significant impact on the Bank's annual financial statements.

In the current reporting period, the following amendments to the existing standards published by the International Accounting Standards Board ("IASB") and adopted by the European Union are in force:

- IBOR reform and its effects on the financial statements - Phase 2 - effective for annual periods beginning on or after 1 January 2021

In addition to previously stated, the IFRS Interpretations Committee has made a number of agenda decisions over the last 12 months. These decisions on the agenda do not constitute relevant guidelines. However, they state the Interpretations Committee's reasoning that the issue is not on its agenda (or referred to the IASB) and that the requirements of applicable IFRS should apply. The IFRS Foundation's website states that 'they should be viewed as useful, informative and convincing'. In practice, IFRS reporting entities are expected to consider and follow agenda decisions, an approach followed by securities regulators around the world.

As of June 30, 2020, the decisions on the agenda on the following topics have been completed:

- **IAS 1 "Presentation of Financial Statements"** - Supply chain financial arrangements - reverse factoring;
- **IAS 38 "Intangible Assets"** - Costs of configuring or adjusting cloud computing arrangements;
- **IFRS 9 "Financial Instruments"** - Variability of cash flow hedging due to real interest rates;
- **IAS 19 "Employee Benefits"** - Breakdown of remuneration by working period;
- **IAS 10 "Events after the Reporting Period"** - Preparation of financial statements when the entity is not operating on the going concern basis;
- **IAS 2 "Inventories"** - Expenses on the sale of inventories.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(II) Standards and amendments to existing standards published by the IASB and adopted in the European Union but not yet in force

At the date of approval of these financial statements, the following amendments to existing standards issued by the IASB and adopted by the European Union have been issued but are not effective:

- **Amendments to IFRS 16 "Leases"** - Covid-19 lease concessions after June 30, 2021 (effective for annual periods beginning on or after April 1, 2021);
- **Amendments to various standards due to "Revision of IFRS from the 2018-2020 cycle)"**, effective for annual periods beginning on or after January 1, 2022;
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Earnings before intended use (effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Harmful contracts - Costs of meeting contract obligations (effective for annual periods beginning on or after January, 1 2022);
- **Amendments to IFRS 3 "Business Combinations"** - References to the Conceptual framework with Amendments to IFRS 3 (effective for annual periods beginning on or after January 1, 2022);
- **IFRS 17 "Insurance Contracts"**, including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Short-Term and Long-Term Liabilities (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of accounting estimates (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 12 "Income Taxes"** - Deferred taxes on assets and liabilities arising from individual transactions (effective for annual periods beginning on or after January 1, 2023).

The Bank anticipate that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principals have not been adopted by the EU remains unregulated.

According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

c) Functional and Presentation Currency

The Bank's financial reports are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

d) Interest Income and Expense

Interest income and expense are recognized in the Profit and loss ("P&L") report as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through other comprehensive income, using the effective interest rate method.

Such income and expense are presented as interest and similar income or interest expense and similar charges in the P&L report. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

For financial assets measured at amortized cost, calculation the effective interest rate is based on gross book value, with the exemption of the following:

(a) purchased or originated credit impaired financial assets. For such financial assets the entity applies to the amortized cost of financial assets on initial recognition the effective credit impaired interest rate;
(b) financial assets that is neither purchased nor originated credit impaired financial assets, but afterwards became credit impaired financial assets. For such financial assets the subject in the following reporting periods to the amortized cost of financial assets applies the effective interest rate

Modification of contracted cash flows

If contracted cash flows from financial assets were to be renegotiated or modified in some other manner, whereby such new deal or modification do not lead to derecognition of the financial assets, the Bank recalculate gross book value of the financial assets and in the profit and loss recognize the gain or loss. Gross book value of financial assets is recalculated as present value of renegotiated or modified contracted cash flows discounted by initial effective interest rate of the financial assets (for purchased or originated credit impaired financial assets discounted by effective credit impaired interest rate) or if necessary by credit impaired effective interest rate. Book value of modified financial assets is impaired by arisen costs or fees, which are depreciated during the remaining period of the modified financial assets. When the modification of conditions or modification of contracted future cash flows leads to derecognition of existing financial assets and at the same time there are impairment indicators of new financial assets, it represents the purchased or originated credit impaired financial assets (so called POCI). Once classified into the POCI category, the assets remain in it for its remaining lifetime.

e) Fees and Commissions Income and Expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Bank. Fee and commission income and expense are recognized in the P&L report when the related service is performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

g) Fees and Commissions Income and Expense (continued)

Asset management fees related to investment fund management are recognized on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

h) Dividend income

Dividend income on equity investments is recognized in the P&L report when the right to receive dividends is established.

i) Gains Less Losses from Financial Instruments at Fair Value in P&L and Financial Instruments Measured at Fair Value through Other Comprehensive Income

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses from financial instruments at fair value through other comprehensive income include realized gains and losses from financial instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income are tested at the end of every reporting period in order to determine the existence of indicators of potential impairment. Financial assets are impaired if there is objective evidence that estimated future cash flows were impacted by one or more events after initial recognition of the financial instrument.

For equity interests in the portfolio that are measured at fair value through other comprehensive income, a significant or long lasting decline in the fair value of the security below its cost is considered objective evidence of impairment.

Objective impairment evidence may include:

- Significant financial difficulties for issuer or other contract party, or
- Contract breach, for example late payments or non-payment of principal and interest, or
- Likely bankruptcy start or financial restructuring of the debtor, or
- Disappearance of active market for concerned financial assets due to financial difficulties.

Any subsequent increase in fair value after impairment is recognized in other comprehensive income. In relation with debt securities classified at reporting date at fair value though other comprehensive income (previously available for sale), impairment can subsequently be reversed in the profit and loss account if there is evidence there exists objective evidence of increase of fair value in relation with the event that arises after recognition of impairment.

j) Gains Less Losses Arising from Dealing in Foreign Currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

k) Foreign Currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognized in the P&L report. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not recalculated.

The fair value of financial assets through other comprehensive income denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The official middle exchange rate as of June 30, 2021 was: 7.491244 = 1 EUR; 6.290406 = 1 USD; 6.835700 = 1 CHF.

The official middle exchange rate as of June 30, 2020 was: 7.558818 = 1 EUR; 6.707621 = 1 USD; 6.094817 = 1 CHF.

l) Financial instruments

i) Classification

The Bank classifies all financial assets in terms of asset management business model, which is measured as follows:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss account (FVPL).

Financial liabilities, except for loans granted at interest rate lower than market rates, financial guarantee-based liabilities and financial liabilities measured at FVPL are measured at amortized cost

The classification depends on the intent of the financial instruments'' acquisition. The Board determines the classification of the financial instruments at initial recognition.

Business model assessment

The Bank determine business models in a manner that best reflects management of financial assets group in order to achieve the business purpose.

Business models of the Bank are not determined at individual level of each instrument, but at aggregate level of the group of the financial instruments.

Business model assessment is based on reasonably expected scenarios. If cash flows after initial recognition are realized in a manner different than the initially expected, the Bank do not change the classification of the remaining financial assets held in that business model, but in the future include new information into the assessment of newly approved or purchased financial assets.

l) Financial instruments (continued)

i) Classification (continued)

Business model assessment (continued)

In accordance to IFRS 9, the Bank classify its financial assets in accordance with the following business models:

- Business model with the purpose of holding the assets in order to collect contractual cash flows

Financial assets held within this business model are managed with the intent to generate cash flows by collecting contractual payments during the instrument's lifetime. The Bank manage the assets within the portfolio in order to collect certain cash flows (instead of managing the entire portfolio yield that is realized by holding and also by selling the assets).

- Business model with the purpose of collecting cash flows and also by selling the financial assets

Within this business model the Bank hold financial assets, which purpose is to collect contracted cash flows and also to sell the financial assets. Within this business model the key management personnel makes the decision that the goal of the business model is realized by collecting cash flows and also by selling the financial assets. One of the goals of the business model is managing daily needs related to liquidity in order to keep a certain interest yield profile or that the duration of the financial assets corresponds to duration of liabilities financed by those assets.

- Other business models

Financial assets are measured at fair value through profit and loss account if they are not held within the business model with the intent of holding financial assets to collect contracted cash flows or within the business model with the intent of collecting contracted cash flows and also by selling financial assets. The business model which consequently has measurement at fair value through profit and loss account is the one within the Bank manage the financial assets with the intent of generating cash flows by selling the assets. The Bank make decision based on fair value of the assets and manage it in order to realize the fair value.

Financial Markets Sector acquires different types of financial assets, whereby the intent for their acquisition is not unambiguous. Within the context of the IFRS 9 application the model of acquisition of financial assets and its placement within business models will be allocated between Financial Markets Sector and Assets and Liabilities Management Office. Financial Markets Sector when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Sector more closely describes with the Internal act conditions and manner of acquiring financial assets and its placement into each category in accordance with the chosen business model.

Assets and Liabilities Management committee makes decisions, on recommendation of Assets and Liabilities Management Office, on financial assets acquisitions within the business model holding to collect and sale. Investments related to this business model will arise from the Bank's investments into financial assets with the intent of liquidity management – general strategy. Transactions related to the stated business model are carried out by Financial Markets Sector by directive from Assets and Liabilities Management Office. The Bank places financial instruments within this business model mainly with the purpose of keeping regulatory obligations and prescribed ratios or liquidity reserves in accordance with internal and external limits.

l) Financial instruments (continued)

i) Classification (continued)

Solely Payments of Principal and Interest test (so called SPPI test)

As the next step of the classification process the Bank asses contracted conditions of financial assets in order to conclude whether the stated assets have contracted cash flows which are solely payments of principal and interest on unpaid amount of the principal. For purposes of applying this test, the 'principal'' is fair value of financial assets at initial recognition, however that amount of the principal can be changed during the financial assets' lifetime (i.e. in case of paying off the principal). The interest covers the fee for time value of cash, for credit risk related to unpaid amount of the principal during certain period and other basic risks and loan costa and also for profit margin. In order to assess the SPPI test result, the Bank apply assessment and take into consideration important factors such as the currency of financial assets.

However, if contracted cash flows of financial assets are not solely payments of principal and interest on unpaid amount of the principal, such financial assets are subsequently measured at fair value through profit and loss account.

Financial assets at fair value through profit and loss account

This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the Board had initially recognized at fair value through profit and loss account, or those that have to be recognized at fair value through profit and loss account in accordance with IFRS 9. The Bank recognizes financial assets and liabilities at fair value through profit and loss account when:

- Assets and liabilities are managed, measured or are internally presented at fair value,
- Accounting mismatch is eliminated or significantly reduced by recognition, which would otherwise arise, or
- Assets and liabilities contain certain derivative which significantly changes cash flows which would otherwise arise from the contract.

Financial assets at fair value through profit and loss account include equity securities, debt securities, shares in investment funds and derivative financial instruments held for trading.

Financial assets held for trading relate to assets purchased or issued mainly for transactions which realize profit in a short-term.

Changes in fair value of these assets are recognized through net income from trading.

Financial assets at amortized cost

The Bank measure financial assets at amortized cost if both following conditions are met:

- Financial assets are held within business model with the intent of holding financial assets in order to collect contracted cash flows
- Based on contracted terms of financial assets for certain dates, cash flows arise which are solely payments of principal and interest on unpaid amount of the principal.

Financial assets at amortized cost of the Bank arise when the Bank approve cash instruments to customers with no intention of trading with those receivables and include loans and receivables from banks, loans and receivables from customers, as well as mandatory reserve at Croatian National Bank and debt securities.

I) Financial instruments (continued)

i) Classification (continued)

Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income only if both following conditions are met:

- Financial assets are held within business model with the intention of collecting contracted cash flows and also by selling the financial assets
- Based on contract terms of financial assets on certain dates arise cash flows which are solely payments of principal and interest on unpaid amount of the principal.

Gains and losses from financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income, except for gains or losses from impairment and gains and losses from exchange rate differences, up to derecognition of financial assets or its reclassification. If financial assets were derecognized, the cumulative gains or losses previously recognized through other comprehensive income are reclassified from equity into profit and loss account as reclassification adjustment.

Interests calculated by the effective interest rate are recognized in the profit and loss account.

Assets measured at fair value through other comprehensive income cover debt securities.

Investments in an equity instruments which are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, Bank may, at initial recognition, make an irrevocable election to present subsequent changes in the fair value in other comprehensive income. The election is possible for each separate investment. Subsequent changes in the fair value will be presented in other comprehensive income without option of recycling to profit or loss statement.

For these equity instruments Bank will in profit or loss statement recognize dividends from that investments if the entity's right to receive payment of the dividend is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably

Other financial liabilities

Other financial liabilities cover all financial liabilities not measured at fair value through profit and loss account.

ii) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognized on the settlement date. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to borrowers or received from lenders.

The Bank derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. At full derecognition of financial assets, the difference between book value (determined at derecognition date) and received consideration is recognized in the profit and loss account.

l) Financial instruments (continued)

The Bank derecognize financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

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

iii) Initial and Subsequent Measurement

Financial assets and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost and are subsequently measured applying internal models of fair value estimation.

Loans and receivables and held to maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortized cost.

iv) Determination of Fair Value of Financial Instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date, taking into account current market conditions, its own credit risk and the current creditworthiness of the counterparties.

v) Reclassification

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. Bank does not reclassify financial liabilities.

Reclassification between categories depend on the category in which the financial instrument was initially recognized.

If the Bank reclassifies financial assets in accordance it will apply the reclassification prospectively from the reclassification date. The Bank will not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

l) Financial instruments (continued)

v) Reclassification (continued)

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with CNB, placements with other banks with original maturities of three months or less, and items in course of collection.

m) Specific Financial Instruments

Derivative Financial Instruments

The Bank uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated

m) Specific Financial Instruments (continued)

as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the P&L report, unless there is no reliable measure of their fair value. Changes in the fair value of derivatives are included in gains less losses arising from trading with securities.

Treasury Bills and Debt Securities

Treasury bills and debt securities that the Bank holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as financial assets at fair value through other comprehensive income and are carried at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified as assets at amortized cost.

Equity Securities and Investments in Open-End Investment Funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as assets at fair value through other comprehensive income.

Placements with Banks

Placements with banks are classified as loans and receivables and measured at amortized cost less impairment losses.

Loans and Receivables from Customers

Loans and receivables from customers are presented net of impairment losses. Purchased loans that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets. In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in Subsidiaries

In the Bank’s separate financial reports, investments in subsidiaries are recorded at cost.

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the P&L report over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

Repurchase Agreements and Linked Transactions

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are presented as liabilities to either banks or customers.

The difference between the sale and repurchase amount is recognized on an accrual basis over the period of the transaction and is included in interest income or expense.

n) Corporate tax

Corporate tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the P&L report and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial reports and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The measurement of deferred tax liabilities and assets reflects the amount that the Bank expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

o) Property and Equipment

Property and equipment are tangible assets that are held for use in the supply of services or other administrative purposes.

Recognition and Measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional valuator.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the P&L report on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	June 30, 2021	**2020**
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	2-4 years	2-4 years
Motor Vehicles	5 years	5 years
Other Assets*	10 years	10 years

**Other assets refer to air conditioning and heating equipment*

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

p) *Investment property*

Investment property include the Bank's investments in real estate with the intention of selling the same and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any gain or impairment loss from the change in fair value is recognized in the income statement as occurred. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

q) *Intangible Assets*

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IAS 38. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred.

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	June 30, 2021	**2020**
Leasehold improvements	4-10 years*	4-10 years*
Software	3-10 years	3-10 years
Licences	3-10 years	3-10 years

* Leasehold improvements are amortized in line with the duration of lease contract, average period of amortization is 5 to 7 years.

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r) Impairment of Non-Financial Assets

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

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

s) Non-Current Assets Held For Sale

The Bank initially recognize (classify) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank occur and if there is evidence that the Bank will continue in line with the plans to continue selling the same.

The Bank does not perform depreciation of assets held for sale. Impairment losses arising on the subsequent measurement of assets is recorded in the P&L report of the Bank. Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the P&L report at the time of sale.

If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank does not recognize those assets as assets held for sale.

Bank does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the P&L report.

t) Repossessed asset in exchange for uncollected receivables

The Bank initially recognize repossessed asset in accordance with IAS 40 “Investment Property” and account for it as described in part Investment property. In case that repossessed asset will be intended for sale and it meet the criteria of relevant IFRS 5 “Non-current Assets Held for Sale”, the asset will be recognized and accounted for as long-term tangible asset held for sale.

Only exceptionally, if repossessed asset will be used in regular business activities of the Bank, it can be decided, at acquisition, that the asset will be put in use and accounted for in accordance with IAS 16 “Property, plant and equipment”, as described in part Property and Equipment.

At initial recognition of repossessed assets taken in exchange for uncollected receivables, the cost of acquisition will be the lower of the net carrying amount of the financial asset, whereby the foreclosed asset or assets received to pay off debt and the fair value of the foreclosed asset less costs to sell.

u) Provisions for Liabilities and Expenses

The Bank recognize a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represent the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognized at initial recognition. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

v) Leases

The contract is, or contains, lease if it conveys the right to use an underlying asset for the defined period of time in exchange for consideration. For such contracts the Bank recognizes right-of-use asset and lease liability.

Leases where the Bank is lessor in which they retain all the risks and awards related to the ownership, comprise all the tangible and intangible asset at purchase cost less accumulated depreciation or amortization. Rent income from operating lease is recognized in profit or loss statement using straight-line method during the lease period. Initial costs, directly related to the operating lease contract, the Bank recognizes over time in line with the recognition of rent income. For the duration of a lease contract, the Bank recognizes depreciation or amortization and impairment losses on the leased asset aligned with the amortization method applicable for the similar asset owned by the Bank.

For lease contracts where the Bank is a lessee, lease liability is measured at the present value of future lease payments, discounted at incremental discount rate of the lessee at the date of initial recognition. Lease liability is recognized in contracted currency.

v) Leases (continued)

On the other hand, the Bank as a lessee recognizes Right-of-Use Asset (RoU) at the date of initial recognition by which the right to use the underlying asset is measured at the amount of present value of future lease payments adjusted for any accruals and prepayments related to the lease contract recognized in the statement of financial position immediately before the date of initial recognition. The Right-of-Use Asset is recognized in Bank's functional currency and is depreciated on a straight-line bases over lease term.

Subsequent measurement of the lease liability includes an increase in book value to reflect interest on the lease obligation and a decrease in value that reflects the lease payments.

Bank opted for the practical expedient in terms of IFRS 16 "Leases" (i.e. Lease Liability and Right-of-Use Asset recognition) in the following cases:

- Short-term leases and
- Leases of low-value items.

In these cases, lease payments are recognized as an expense over the lease term.

The Bank decided to opt for the low-value items expedient and identified, based on the IASB opinion presented in the Basis of conclusion, that the order of magnitude would be USD 5,000 (value of underlying asset).

Bank has opted for the expedient for the intangible asset as well.

VAT is excluded from the calculation of the Right-of-Use Asset and the Lease Liability.

Lease liability is measured at the present value of future lease payments (not paid at that date), discounted at the interest rate implicit in the lease if it can be readily determined. Otherwise, the Bank uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow:

- the funds to obtain asset of a similar value to the right-of-use asset;
- over a similar term;
- with a similar security;
- in similar economic environment.

The Bank discloses the information about lease contracts in which it acts as a lessee, separately in the financial statements which comprise the following:

(a) Depreciation charge for the right-of-use asset;
(b) The interest expense on the lease liability;
(c) Expenses related to the short-term leases (these expenses do not have to include expenses related to contracts with lease period shorter or equal to one month);
(d) Expenses related to the leases of low-value items.

w) Employee Benefits

Defined Pension Contributions

The Bank pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money. Actuarial gains or losses are recognized in other comprehensive income, whereas interest expense and current period employee expenses are recognized in profit or loss statement.

x) Share Capital and Reserves

Share Capital and Reserves

Share capital is denominated in Croatian Kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

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

Retained Earnings

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

Earnings per Share

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/ loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

y) Contingencies and Commitments

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Bank’s report of financial position if and when they become payable.

z) Funds Managed for and on Behalf of Third Parties

The Bank manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's assets and are excluded from the report of financial position. For the services rendered, the Bank charges a fee which is recognized in the P&L report on an accrued basis.

2. LOANS AND RECEIVABLES FROM CUSTOMERS

	30.06.2021 HRK '000	31.12.2020 HRK '000
Short-Term Loans		
Corporate	1,417,311	1,700,285
Retail	949,812	950,314
Total Short-Term Loans	**2,367,123**	**2,650,600**
Long-Term Loans		
Corporate	6,415,729	6,588,130
Retail	7,284,992	6,937,989
Total Long-Term Loans	**13,700,721**	**13,526,119**
Accrued Interests Due	109,999	111,729
Accrued Interests Not Yet Due	9,150	15,285
Total Gross Loans	**16,186,993**	**16,303,732**
Provisions for Impairment Losses	**(1,328,498)**	**(1,328,007)**
Portfolio Based Impairment Allowance for Identified Losses	**(223,270)**	**(252,955)**
Total	**14,635,226**	**14,722,770**
Total Impairment Allowance and Provisions as a Percentage of Gross Loans to Customers	9.59%	9.77%

Movements in Impairment Allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

			30.06.2021 HRK '000			31.12.2020 HRK '000
	Individually Expected Losses	Portfolio Based Expected Losses	Total	Individually Expected Losses	Portfolio Based Expected Losses	Total
Balance at January 1	**1,328,007**	**252,955**	**1,580,962**	**1,338,102**	**198,147**	**1,536,249**
Increase of Impairment Losses	6,046	(28,951)	**(22,905)**	86,878	54,200	**141,079**
Net Foreign Exchange Loss/ (Gain)	2,356	(735)	**1,621**	1,487	608	**2,095**
Write-Offs	(12,259)	-	**(12,259)**	(103,035)	-	**(103,035)**
Other	4,347	-	**4,347**	4,575	-	**4,575**
Balance at June 30/ December 31	**1,328,498**	**223,269**	**1,551,767**	**1,328,007**	**252,955**	**1,580,962**

2. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Gross exposure and expected credit losses analysis for the Bank for the period from January 1 to June 30, 2021 was as follows:

HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**13,412,294**	**763,209**	**2,128,229**	**16,303,732**
Arisen or purchased new assets	1,829,130	93,721	61,923	**1,984,775**
Derecognized or paid off assets (excluding write-offs)	(1,776,196)	(159,554)	(152,045)	**(2,087,795)**
Transfer into Stage 1	60,197	(58,247)	(1,949)	**-**
Transfer into Stage 2	(617,583)	633,283	(15,699)	**-**
Transfer into Stage 3	(84,447)	(95,450)	179,897	**-**
Modification based changes (do not result with derecognition)	(207)	(174)	(1,078)	**(1,458)**
Write-offs	-	-	(12,259)	**(12,259)**
Balance at 30 June 2021	**12,823,187**	**1,176,787**	**2,187,020**	**16,186,994**
Expected credit losses at 1 January 2021	**(172,023)**	**(80,513)**	**(1,328,426)**	**(1,580,962)**
Arisen or purchased new assets - Derecognized or paid off assets (excluding write-offs)	**(19,139)**	**(2,459)**	**(6,149)**	**(27,746)**
Derecognized or paid off assets (excluding write-offs)	**37,515**	**8,172**	**31,438**	**77,125**
Transfer into Stage 1	**(5,521)**	**3,575**	**1,946**	**-**
Transfer into Stage 2	**21,017**	**(22,400)**	**1,384**	**-**
Transfer into Stage 3	**1,501**	**11,495**	**(12,996)**	**-**
Change in expected credit loss	**14,916**	**(19,405)**	**(27,954)**	**(32,443)**
Write-offs	-	-	**12,259**	**12,259**
Balance at 30 June 2021	**(121,734)**	**(101,536)**	**(1,328,498)**	**(1,551,767)**

Of which purchased or issued credit impaired financial assets (POCI) for the Bank were as follows:

HRK'000	POCI
Balance at 1 January 2021, net	**176,014**
Arisen or purchased new assets	794
Derecognized or paid off assets (excluding write-offs)	(11,867)
Balance at 30 June 2021, net	**164,941**

2. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Gross exposure and expected credit losses analysis for the Bank in 2020 was as follows:

HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**12,185,916**	**717,261**	**1,972,093**	**14,875,271**
Arisen or purchased new assets	3,964,983	96,120	284,714	**4,345,818**
Derecognized or paid off assets (excluding write-offs)	(2,458,640)	(123,525)	(206,077)	**(2,788,242)**
Transfer into Stage 1	216,072	(190,405)	(25,667)	**-**
Transfer into Stage 2	(295,938)	352,279	(56,341)	**-**
Transfer into Stage 3	(194,719)	(88,238)	282,956	**-**
Modification based changes (do not result with derecognition)	(4,883)	397	1,099	**(3,386)**
Write-offs	(498)	(682)	(124,549)	**(125,729)**
Balance at 31 December 2020	**13,412,293**	**763,209**	**2,128,229**	**16,303,732**
Expected credit losses at 1 January 2020	**(130,939)**	**(66,894)**	**(1,338,416)**	**(1,536,249)**
Arisen or purchased new assets - Derecognized or paid off assets (excluding write-offs)	(45,860)	(5,443)	(40,870)	**(92,174)**
Derecognized or paid off assets (excluding write-offs)	16,897	2,594	35,954	**55,445**
Transfer into Stage 1	(12,102)	10,714	1,388	**-**
Transfer into Stage 2	8,144	(9,970)	1,827	**-**
Transfer into Stage 3	3,144	9,657	(12,801)	**-**
Change in expected credit loss	(11,306)	(21,172)	(78,542)	**(111,020)**
Write-offs	-	-	103,035	**103,035**
Balance at 31 December 2020	**(172,023)**	**(80,513)**	**(1,328,426)**	**(1,580,962)**

Of which purchased or issued credit impaired financial assets (POCI) for the Bank were as follows:

HRK'000	POCI
Balance at 1 January 2020, net	**95,653**
Arisen or purchased new assets	114,768
Derecognized or paid off assets (excluding write-offs)	(34,407)
Balance at 31 December 2020, net	**176,014**

3. DEPOSITS FROM CUSTOMERS

Bank			2021 HRK '000			2020 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits						
Retail	5,154,219	2,648,339	**7,802,558**	4,874,332	2,573,118	**7,447,449**
Corporate	5,150,878	1,252,133	**6,403,011**	4,569,046	981,423	**5,550,470**
Restricted Deposits						
Retail	7,035	6,006	**13,041**	8,893	6,503	**15,396**
Corporate	1,544,787	1,558,586	**3,103,373**	1,380,480	1,137,133	**2,517,614**
	11,856,919	**5,465,064**	**17,321,983**	**10,832,751**	**4,698,177**	**15,530,929**
Term Deposits						
Retail	1,513,094	2,453,031	**3,966,124**	1,712,785	2,633,743	**4,346,528**
Corporate	791,377	286,470	**1,077,846**	941,615	290,491	**1,232,105**
	2,304,470	**2,739,500**	**5,043,971**	**2,654,400**	**2,924,234**	**5,578,634**
Interests Payable - Not Yet Due	4,590	5,853	**10,442**	3,727	5,144	**8,872**
Total	**14,165,978**	**8,210,417**	**22,376,396**	**13,490,879**	**7,627,556**	**21,118,434**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.