SLATINSKA BANKA d.d.
Vladimira Nazora 2, Slatina

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

for the year 2021

CONTENTS

SLATINSKA BANKA

SLATINSKA BANKA d.d.
Vladimira Nazora 2, 33520 Slatina
Tel:033/637-000
Fax:033/637-019
Website: www.slatinska-banka.hr
E-mail address: slatinska-banka@slatinska-banka.hr

SLATINSKA BANKA d.d. SLATINA
ANNUAL REPORT
FOR THE YEAR 2021

CONTENTS

SLATINSKA BANKA d.d.
Vladimira Nazora 2, 33520 Slatina
Tel:033/637-000
Fax:033/637-019
Website: www.slatinska-banka.hr
E-mail address: slatinska-banka@slatinska-banka.hr

MANAGEMENT REPORT ON THE FINANCIAL POSITION AND ANALYSIS OF BUSINESS PERFORMANCE

Dear clients. shareholders and employees,

In 2021, Slatinska banka d.d. recorded successful business results and gross profits of HRK 5,098 thousand were recorded.

Even though Slatinska banka belongs to a group of “small-sized” banks in the Croatian banking market, we have managed to adequately respond to all business challenges facing the Bank, improve the organisation of the Bank, and accomplish growth in target markets.

The balance of the Bank increased by about HRK 34 million compared to the previous year and amounts to HRK 1,535 million. Significant activities during 2021 were directed to optimisation of both the amount and the structure of the total liabilities of the Bank with a view of ensuring complementarity with the investment business policy of the Bank, which was achieved. The result of such an activity is visible in the reduction of the interest expense in 2021 by 45% compared to the previous year.
The financial data for 2021 is confirmation of the good business of Slatinska banka d.d.

After the outbreak of the pandemic, the Bank reacted adequately and quickly and adopted the recommendations of the CNB and the EBA in its operations. There has been an increase in profits, and business stability while supporting clients in these challenging times.

In 2020, loans and advance payments of the Bank were granted taking into account risks of the operation and clients’ creditworthiness.
Risk exposure, in particular exposure to credit risk, is monitored constantly, and the Bank will try to reduce their impact on the business performance in the following period.
Significant activities are aimed at improving the processes of collection of exposure and assets, which is evident through other generated revenue.
Due to the more cautious approach to approval of new investments conditioned by the abovementioned pandemic, in 2021 we recorded an increase in borrowings and advance payments to clients by HRK 37.8 million (4,70%) compared to 2020.

Optimisation of cost efficiency is implemented on a continuous basis, with investment in human resource expertise with a view of increasing the efficiency, improving the process and internal controls, and promoting the business performance.

In 2021, the Bank invested in increasing the security and development of internal controls, development of card operation in compliance with the European standards, and continuing education of the Bank's employee, all aimed at improving the bank services and ensuring better accessibility for clients.

Significant activities have been undertaken for the implementation of the euro, which will become a legal currency in the Republic of Croatia from the beginning of 2023.

The modern approach of the Bank to services by redesigning its website offer new and innovative opportunities for the use of the services to clients, through modern distribution channels, while maintaining high levels of security. Given that adjustment of the operation to the market conditions and the requirements of clients is necessary for the accomplishment of the goals, further activities of the Bank in the next period will be directed to digitisation of the operation, that is, investments in new technologies and solutions.

Responsible cost management and business risk management, seeking new markets, along with regulatory adjustments still pose challenges, which we will try to meet successfully.

The Bank successfully adapted to the challenges posed by Covid 19 and minimized the impact on the overall business with quality policies, and ended the year with successful business results.

The trend of recovery of economic activity and the growth of business optimism are good preconditions for further business success. Our goal is to achieve sustainable and long-term development of the Bank and the success, satisfaction and prosperity of our clients, employees, the local environment in which we operate and society as a whole.

DEVELOPMENT OF SLATINSKA BANKA d.d. SLATINA

SLATINSKA BANKA d.d. was founded on 9 October 1992 and is the only banking institution seated in the County of Virovitica and Podravina, in Slatina, Vladimira Nazora 2.

In terms of the organisation, the Bank is divided in 12 Sectors, with specialist departments defined.

On 31 December 2021 the Bank operated through a network of 14 branch offices in the counties: Virovitica-Podravina, Osijek-Baranja, Požega-Slavonia, Brod-Posavina, Bjelovar Bilogora, Koprivnica-Križevci, Primorje-Gorski Kotar County, and in the City of Zagreb.

Besides providing services to clients through the network of branch offices, the banking services are available through an ATM network and through other distribution channels, such as Internet banking, mobile banking and a network of EFTPOS devices.

Given the specific activity it deals with, R&D activities of the Bank are directed to research and analysis of the market with a view of improving the offer and enhancing the services it provides to its clients. The business model of the Bank is based on the principle of a universal local Bank, which is capable to provide its clients with an encircled financial service, which will be a determinant of future operations as well.

The operation of the Bank focuses on citizens, craftsmen, and small and medium sized entrepreneurs. Furthermore, the financial monitoring of local self-government units is a part of the directions of the Bank development.

According to the requirements of the market, the operation of the Corporate Sector is primarily oriented to financial monitoring of the small and medium sized entrepreneurship, craftsmen, and holders of family farms, from both its own funds and the funds of CBRD, as well as through credit lines in cooperation with local self-government units.

The Bank directs a significant part of its activities to increasing collection of outstanding receivables, negotiating rescheduling of debts, and undertakes a series of activities for sale of new services.

In addition to a modern approach to presenting the services of the Bank, a redesigned website offers new benefits, and clients are provided a clearer view of the services, a possibility for filing a retail loan application online as well as an application for opening a current or a transaction account and competitive terms of crediting.

Moreover, the Bank is present in social media in order to ensure easier communication and presentation of services of the Bank to clients and potential clients.

New technologies accelerate changes to which the Bank responds by improvement of the operation and carrying out changes and education of employees for adoption of new knowledge, all with a view of enhancing clients’ satisfaction.

Further activities of the Bank in the next period will be directed towards the digitalisation of operations improvement of the process.

The 2021 business year is important because the positive course of trends of the operation was retained, as were the realistic assumptions for future profitable and stable operation in an unsecure environment (consequences of Covid 19 pandemic and the war in Ukraine).

Sustainable and long-term development of the Bank and success, satisfaction and prosperity of our clients, employees, our local community and the Croatian society as a whole are the goal of the operation of the Bank.

In the next period, we will strive to meet the challenges imposed on us as adequately as possible, profiling ourselves as a modern financial institution that centres on our clients and employees.

ANALYSIS OF THE BANK'S OPERATIONS IN 2021

Table: Basic financial indicators of Bank's operations

	2021 (in 000' HRK)	2020 (in 000' HRK)	index 2021/2020
ASSETS	**1,535,120**	**1,501,582**	**102,23**
STATEMENT OF PROFIT OR LOSS			
- Net interest income	**49,257**	**49,100**	**100,32**
- Net income from fees and commissions	**8,773**	**7,778**	**112,79**
- Other operating income	**3,228**	**2,214**	**145,80**
- Other operating expenses	**-931**	**-990**	**93,94**
- Administrative operating costs	**-42,770**	**-42,849**	**99,82**
- Depreciation	**-4,066**	**-4,451**	**91,35**
Result before impairment and provisions	13,491	10,802	**124,90**
- Impairment and provisions	**-8,393**	**-8,513**	**98,59**
Gross profits	**5,098**	**2,289**	**222,74**
- Profit tax	-1,362	-933	**145,98**
Net profit	**3,736**	**1,356**	**275,55**
TOTAL CAPITAL	172,309	167,183	103,07
CAPITAL REQUIREMENT	160,447	159,971	100,30
TOTAL CAPITAL RATE	18.63%	19.43%	95,88
ROA	**0.25%**	**0.09%**	**277,78**
ROE	**2.20%**	**0.82%**	**268,29**
CIR	**79%**	**81%**	**97,86**
NUMBER OF EMPLOYEES	**184**	**179**	**101,7**

Statement of Profit or Loss

In 2021, the Bank generated a net profit of HRK 3,736 thousand.

Compared to 2020, net interest income increased by 0.32% or HRK 157 thousand and amounted to HRK 49,257 thousand.

The share of interest income in total income on 31 December 2021 was 76.88%, which indicates that the Bank relies significantly on interest income. With a reduction in interest income of 4.69% in 2021, interest expenses, which account for 6.20% of total costs, as a result of better deposit management, were reduced by approximately 45% in 2021.

Net income from fees and commissions amounted to HRK 8,773 thousand, which is 12.79% more than in 2020. Fee and commission income grew by 9.55% in 2021, while commission expenses also grew by 2.81%, which ultimately resulted in the aforementioned increase in net fee and commission income.

Other income was realized in the total amount of HRK 3,227 thousand, and consists of net gains from purchase and sale of foreign means of payment and exchange rate differences (HRK 2,221 thousand), other operating income due to one-time collection effects in 2021 in the amount of HRK 1,231 thousand and a net loss of HRK 224 thousand related to the reduction of financial instruments to fair value.

General and administrative expenses, including costs of contributions to the resolution fund, decreased by 0.17%, while depreciation costs decreased by 8.65%. General and administrative expenses increased in the part of employee costs as a result of strengthening the staff by hiring experienced and professional staff in order to continue raising the quality of the Bank's management.

Other operating expenses in the amount of HRK 931 thousand are the result of the sale of foreclosed assets. The ratio of operating costs to operating income (CIR) in 2021 is 79% (which is a decrease compared to 2020 when the same ratio was 81%).

Expenses on provisions and impairment in 2021 amount to HRK 8,393 thousand and compared to 2021 they are lower by HRK 120 thousand.

In accordance with its policies and procedures, the Bank conducts regular exposure assessments and makes adequate value adjustments to the exposures in question.

Balance Sheet

The balance sheet of the Bank as oat 31 December 2021 amounted to HRK 1,535,120 thousand, which is an increase of HRK 33,538 thousand or 2.23% compared to 2020.

The planned optimization of funding sources, in accordance with the planned placement policy, is carried out in order to achieve profitability, while maintaining a high level of liquidity.

Loans and advances to customers amounted to HRK 919,047 thousand, an increase of HRK 29,583 thousand or 3.33%, mostly due to an increase in the level of placements to the economy sector.

Deposits, which are the primary source of financing, together with received loans amount to HRK 1,341m and increased by HRK 32m (2.43%).

The following is an overview of the sectoral structure of placements and sources of funds

Table: sectoral structure of placements

(in HRK '000)

	2021	%	2020	%
CORPORATE	**399,835**	**26%**	**367,886**	**24%**
- companies	309,134		267,449	
- private persons (craftsmen, family farms)	72,611		78,113	
- local self-government and non-profits	14,247		18,153	
- other	3,844		4,170	
RETAIL	**427,590**	**28%**	**418,828**	**28%**
FINANCIAL INSTITUTIONS	**29,601**	**2%**	**28,051**	**2%**
INVESTMENT BANKING	**0**	**0%**	**2,770**	**0%**
DEBT SECURITIES	**230,247**	**15%**	**266,147**	**18%**
OTHER PLACEMENTS AND ASSETS	**447,847**	**29%**	**417,901**	**28%**
TOTAL:	**1,535,120**	**100.00%**	**1,501,582**	**100%**

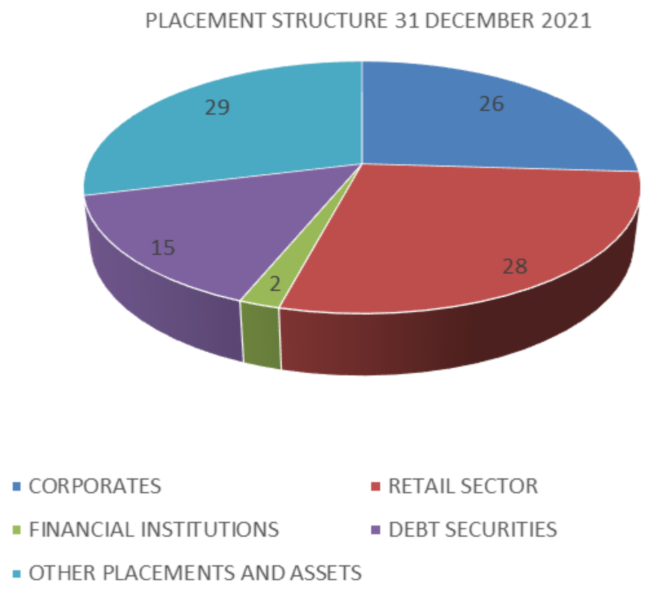
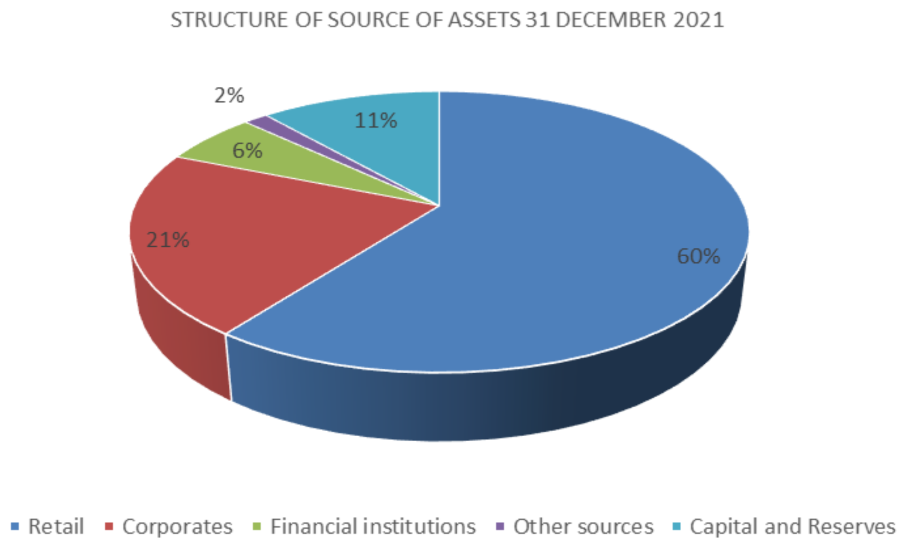


Table: sectoral structure of sources of funds

(in HRK '000)

	2021	%	2020	%
RETAIL	**923,372**	**60%**	**986,169**	**66%**
CORPORATE	**325,072**	**21%**	**217,449**	**14%**
- companies	154,989		115,943	
- private persons (craftsmen, family farms)	118,363		58,286	
- local self-government and non-profits	51,720		43,221	
FINANCIAL INSTITUTIONS	**91,185**	**6%**	**104,232**	**7%**
OTHER SOURCES	**23,182**	**2%**	**26,537**	**2%**
CAPITAL AND RESERVES	**172,309**	**11%**	**167,183**	**11%**
TOTAL:	**1,535,120**	**100%**	**1,501,582**	**100%**



Retail banking

In accordance with the strategic guidelines of the Bank's operations, in 2021, intensive commercial activities aimed at the Retail Sector continued. Through greater investments in advertising, systematic monitoring of competition, adjusting the offer to the expectations of the target market, improving business processes, developing new products, as well as education and motivation of sales staff, the growth trend in the retail segment continued.

Although 2021 was also marked by operations in pandemic conditions, the Bank managed to respond to the growing needs and expectations of consumers by improving its offer, which resulted in a 2% increase in net loans.

Clients are offered the option of repaying loans up to 10 years for consumer loans, and for housing loans with a repayment period of up to 20 years. The Bank offers loans with fixed interest rates and with variable interest rates related to the NRS. Also in 2021, it is important to highlight the increase in active users of online services by 10%.

The retail sector is divided into two organizational parts: the Sales Network Management Department, which organizes, develops, coordinates and monitors the work of the business network, forms a model for setting goals and measuring the effects of business network goals, setting sales plans and monitoring them, and Product Development and Marketing which has the task of monitoring new and existing market trends and developing the Bank's products in accordance with market requirements, in order to support the business (sales) network and organize and conduct marketing campaigns and select the most effective communication channels for certain products.

In the coming period, the Retail Sector will continue to focus on the needs of its customers and accordingly develop products and provide services in order to maintain long-term relationships with customers of various generations.

Corporate Transactions

Operations in the corporate segment are primarily focused on financial monitoring of micro, small and medium enterprises, craftsmen and family business owners, primarily from own funds and through credit lines in cooperation with local government units.

Placements in the corporate segment in 2021 amount to HRK 400 million (HRK 368 million in 2020).

The Bank has developed business cooperation with the Croatian Agency for Small Business, Innovation and Investment (HAMAG-BICRO) for the issuance of individual and portfolio guarantees financed from the European Structural and Investment Funds, primarily aimed at enabling small businesses to invest when they do not have their own quality collaterals. Also, through business cooperation with the Croatian Bank for Reconstruction and Development (CBRD), a more diverse offer of credit lines for the Bank's clients was enabled by using loans from CBRD sources.

We place special emphasis in business on our farmers who we monitor in business while adapting products to their needs.
Also, the Bank actively participates in the financing of local government and self-government units, which solves development infrastructure needs in a quality way and creates a quality basis for the further economic development of the areas in which the Bank operates.

In addition to lending, the Bank also offers business entities the issuance of all forms of guarantees, from kuna and foreign currency, offer, performance and payment guarantees, letters of credit and other forms of guarantees required by today's business conditions.

In order to facilitate business for some clients who had financial difficulties caused by the loss and reduction of sources of income/receipts due to the coronavirus pandemic, in 2021 the Bank enabled the continued use of assistance measures. Creditworthiness, quality development programs and the expertise of management are the basic prerequisites for financial monitoring of clients. The goal we want to achieve is to be recognized as a reliable partner to entrepreneurs in the local market with an individual approach to the client and quality and service tailored to their needs that will help them more easily achieve their goals.

Developing and improving our business, we also offer legal entities other services that enable faster, simpler and more efficient business using day and night safes, EFTPOS terminals, MasterCard Business Charge cards, SMS services and especially online services, i.e. internet and mobile banking.

Due to the current specifics of the entrepreneur's business, we have adapted to new ways of doing business and we prefer online communication, with a partnership approach and reduced documentation wherever possible.

In the Bank’s corporate operations, the main activities will continue to be focused on developing and increasing the quality of services provided by the Bank to entrepreneurs, and further joint building of mutual business trust and partnership with adaptation to modern business practices.

Payment Transactions

Successful and secure functioning of payment operations (national, cross-border and international) is extremely important for all clients of the Bank and other participants in payment transactions.
The basic idea in providing payment services to clients in 2021 was to make payment services available to clients safe and secure outside the Bank's business premises.

In 2021, the digital transformation of business continued, which will enable further improvement of communication and customer monitoring channels through branches, the Internet, self-service devices, telephones and mobile phones.

Investing in fast and secure cash withdrawals at ATMs, contactless card payments, mobile phone payments, and the transition to digital e-commerce, was fully justified and confirmed during the pandemic and proved the need for continuous innovation and improvement of payment services. By further investing in the digitalization of operations in 2021, despite the economically difficult environment due to the long-term scale of the pandemic, the Bank ensures long-term continuity and quality in the banking market.

The bank has a developed network of correspondent banks. It makes foreign currency payments through the SWIFT Alliance application and is an active participant in the HSVP and TARGET2 systems. It is an active participant in both the EuroNKS and NKSkn systems, thus being directly involved in the SEPA payment system (Single Euro Payments Area).
Since 2017, the Bank has been an active participant in the SEPA Direct Debit basic and business payment scheme.

For payment transactions, the Bank uses its own software, which is the technical basis for the quality provision of payment services both in the country and abroad.
In 2019, the Bank established a dedicated PSD2-API interface, through which new payment service providers have access to accounts maintained by customers with the Bank, in accordance with Directive 2015/2366 on payment services in the internal market (PSD2) and amendments to regulatory technical standards for reliable client authentication and common and secure open communication standards (RTS).

By adapting to the new business conditions and the way clients work, the Bank was able to provide all the necessary services to clients and meet their needs.

Responsible management of payment transaction costs, while respecting the more difficult business conditions of clients as well as competition, maintained the policy of equalization of payment transaction fees.

Customer satisfaction with the business relationship and service arises from the realized number of payment transactions and the opening of new transaction accounts throughout the business network.

The quality and speed of service, as well as maintaining security, continue to be the lead in the management and administration of payment operations in the Bank.

Bank's Information System

The information system represents the comprehensiveness of people, organizations, technological infrastructure and procedures for collecting, processing, generating, storing, transmitting, displaying and distributing information. An information system can also be defined as the interaction of information technology, data and data processing procedures and the people who collect and use the data.

The technological base of the Bank's information system consists of the CORE server for banking and non-banking applications powered by IBM Power System S914, which ensures the preconditions for stable operation of the Bank in the coming period. External locations - branches are connected via a virtual private network with a redundant connection provided in case of failure of the primary data link, and the complete network equipment of the bank has been renewed and upgraded. In addition to the business network, banking services are available through other distribution channels such as Internet banking and mobile banking for business and physical users, EFTPOS network of devices, ATMs and through PSD2 (open banking) interface in accordance with regulatory requirements.

In terms of business continuity and strategic development plan, the bank has launched a project to replace the CORE system with a new, complete solution, which in addition to existing functionalities expands in the DWH/BI area to facilitate data management and regulatory reporting. Accordingly, a change in the organizational scheme will be carried out in order to make the processes as optimized and faster as possible, with increased control over the use of personal data in accordance with GDPR regulations. There were intensified attempts at external attacks on the Bank's external systems, which were successfully repulsed, monitored, and supervised with the creation of regular reports to the regulator - the CNB. An e-Learning system based on Moodle LMS is used for the needs of internal education of Bank employees and to raise awareness of the increasingly frequent cyber-attacks.

In the area of digital transformation, the project for establishing a retail loan processing process was completed, which, in addition to speeding up the approval process, ensures a better assessment of the Client's portfolio through redefined scoring conditions by adjusting to market conditions, and automated loan agreements and other Bank products. With the introduction of the new CORE system, the credit process itself will be fully completed, including automatic batch opening and subsequent monitoring of payments and collection itself.

Business risks

Risk Management Policy and Strategy

Risk is defined as a possibility for occurrence of events that can unfavourably affect the Bank’s capital, income and its sustainability and goal accomplishment.

The risk management system is comprehensiveness of the organisation structure, rules, processes, procedures, systems and resources for determining, measuring, i.e. assessing, mastering, and monitoring and reporting exposure to risks, or risk managing on the whole, and implies establishment of adequate corporate management, risk culture and adoption of strategy, policy and other internal acts for risk management.

Risk management is an overall process of determining, assessing and monitoring risk, taking into consideration the goals of the Bank and taking the necessary actions, all with the purpose of lowering risk.

Risk Management Organisation

Risk management in the Bank is carried out by the Credit Risk Management Sector and the Risk Sector. The Collection Sector also takes part in the credit risk management segment. Also, risk management is carried out in all the segments of operation through an established internal control system.

Risk Committee

The Risk Committee is the central organizational body for the overall management of risks.
The Risk Committee continuously discusses all risks to which the Bank is exposed in order to define the Bank's further business policy through a defined reporting system.

Credit Risk Management Sector

The Credit Risk Management Sector performs operational credit risk management. Collateral management is performed, which includes reviewing collateral estimates, monitoring collateral values and providing opinions on collateral that the Bank accepts in exposure approval procedures.

The following positions participate in the functioning of the Credit Risk Management Sector:
- Senior Expert Associate for Credit Risk Management and risks reed to credit risks
- Senior Credit Risk Management Associate.

Risk sector

The risk sector performs operational management of all risks except credit, and monitors and measures all risks to which the Bank is exposed.

The following positions participate in the functioning of the Risk Department:
- Expert associate for market and other risks management,
- Senior expert associate for monitoring and measuring credit risks,
- Senior expert associate for monitoring and measuring market and other risks

The risk control function is performed by the Director of the Risk Sector.

Collection Sector

The collection department operationally manages all credit exposures where there is a default in the settlement of liabilities. The Collection Department is taking all measures to collect receivables, both voluntary and forced. Cases in which the Bank cannot achieve agreed collection on a regular basis. In addition to the above, the Collection Department also proposes a restructuring of exposures and proposals for the sale of part of the non-performing portfolio.

Risk Exposure

In its operations, the Bank is exposed to the following risks:

1) Credit risk:
    - Credit risk of the counterparty,
    - Currency induced credit risk,
    - Interest rate induced credit risk,
2) Market risks:
    - Position risk,
    - Currency risk,
    - Commodity risk,
3) Interest rate risk in the Bank's book:
4) Liquidity risk (liquidity financing risk, market liquidity risk):
    - Liquidity financing risk,
    - Market liquidity risk,
5) Operational risk within which the lack of internal controls,
6) Compliance risk,
7) Concentration risk,
8) Residual risk,
9) Country risk,
10) Strategic risk, including the risk of a new product and business lines,
11) Risk of excessive leverage,
12) Exposures to shadow banking entities,
13) Reputational risk,
14) Assessment and monitoring of internal procedures corrected due to the pandemic,
15) Other risks (strategic risk, government risk, dilution risk, securitization risk, management risk, model risk, credit valuation adjustment risk, free delivery risk, business risk, legal risk, migration risk, externalization risk, profitability risk, real estate investment risk, information system risk, settlement risk, risk of misconduct, sustainability risk with emphasis on environmental and climate risks and other risks to which it is exposed or could be exposed in its business).

The degree of risk to which the Bank is exposed depends on many factors and not all of these risks affect the Bank in the same way. Detailed management of individual risks is prescribed in policies, regulations and procedures for these risks.

Risk profile

The Bank is not exposed to securitization risk, because it does not perform securitization operations, nor will it enter into operations that condition dilution risk, so it will not be exposed to the same. Also, the Bank will not trade goods on the market or derivative financial instruments related to goods, i.e. it will not be exposed to commodity risk.

The culture of risk in terms of taking and managing risks is presented to all workers at all levels so that they are clearly aware of the powers assigned to them.

Approach to risk management

A systematic approach to risk management is a key element in setting the Bank's risk management strategy.
The Bank's Management Board ensures that risk management is integrated into all business processes and all organizational parts.
The goal of risk management is to achieve an optimal level of profitability with an acceptable level of risk.
The Management Board and the Supervisory Board, in accordance with their competencies, are ultimately and fully responsible for the establishment, implementation and supervision of the management system.

Risk management process

The risk management process must be tailored to the type of risk to which it relates. Each process must contain at least the following:
- risk assessment,
- risk measurement,
- risk management,
- risk monitoring and reporting,
- risk control.

Level of acceptable risks

The bank shall ensure that at all times it has an amount of capital adequate to the types, scope and complexity of the services it provides and the risks to which it is or may be exposed in providing those services.

The Bank is obliged to maintain an appropriate amount of regulatory capital for the purpose of safe and stable operations, i.e. fulfilment of obligations to its creditors. The regulatory capital of a credit institution may not be less than the amount of share capital prescribed by law or the internal capital prescribed by the Decision.

The Bank is obliged to operate in such a way that it is able to meet due financial obligations in a timely manner at all times (liquidity principle) and that it is permanently able to meet all its obligations (solvency principle).

In its risk policies, the Bank prescribes the levels of acceptable risks for defined risks.

Risk exposure reporting

The Management Board and the Supervisory Board of the Bank are regularly informed on various aspects of portfolio quality risk, and recovery plan indicators and are provided with all the information necessary to assess the risk to which the Bank is exposed. The report contains detailed information on exposures, risk assessments, concentrations and changes in the risk profile. The risk sector also prepares additional reports that provide it with the necessary information for proactive risk management.

Control functions compile individual and periodic reports in accordance with the Rules of Procedure of the Risk Control Function, the Rules of Procedure of the Compliance Monitoring Function and the Rules of Procedure of the Internal Audit.

In order to adequately protect its exposure, the Bank contracts collaterals from which it is possible to collect its receivables if the Bank's debtor fails to meet its obligations, i.e. to ensure minimal credit risk.

Credit risk

Credit risk is the most significant risk in the Bank. Credit risk is the risk of loss due to the default of the debtor's monetary obligation to the Bank.

Currency-induced credit risk and interest rate-induced risk are derivatives of credit risk and are considered separately by the Bank.

The Bank has prescribed a Credit Risk Management Policy. The aim of the policy is to prescribe clear lines of authority and responsibility for credit risk management within the Bank, methodology for determining and measuring or assessing credit risk to which the Bank is exposed or could be exposed, procedures for credit risk management and monitoring, including establishing appropriate limits, procedures and measures if crisis situations arise.

The process of monitoring an individual exposure includes assessing the creditworthiness of the debtor, the group of related parties to the debtor, the regularity in settling liabilities and the quality of collateral during the legal relationship that constitutes the exposure.

The senior expert associate for monitoring and measuring credit risks prepares the analysis of the loan portfolio and is responsible for its preparation. The analysis is performed quarterly after value adjustments and is presented to the Risk Committee.

We measure credit risk through the process of monitoring placements and analysing the loan portfolio in accordance with the Policy of monitoring placements and analysing the credit portfolio and through the process of classifying placements according to risk levels, as prescribed by the Ordinance on the classification of exposures to risk groups.

The overall compliance with the provisions of the Policy is implemented through the function of risk control, sectoral control departments and Internal Audit, according to the adopted annual plans.
The risk control function, sectoral control departments and internal audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board after the controls have been performed.
The method of credit risk protection is continuous monitoring of individual placements so that it enables timely taking of appropriate measures to reduce credit risk in the event of deterioration of the creditworthiness of the debtor or the provider of the collateral.
Throughout the duration of the contractual relationship, the Bank assesses the credit quality of exposures and classifies these exposures into appropriate risk groups based on the following criteria:
1) creditworthiness of the debtor,
2) regularity in settling the debtor's obligations to the credit institution and other creditors, and
3) quality of collateral by individual exposure.

In accordance with the requirements of IFRS 9, three categories of calculation of value adjustments are prescribed:
STAGE 1 (S1) - calculation of expected one-year credit losses on a collective basis,
STAGE 2 (S2) - calculation of expected credit losses for the entire duration of the exposure on a collective basis,
STAGE 3 (S3) - calculation of expected credit losses on an individual basis

The main criteria / relevant data for classifying exposures into risk groups are:

- Days of delay,
- Status of receivables - Restructured placements, COVID-19,
- Account suspension,
- Internal creditworthiness assessment,
- Status of the deceased.

Indicators that indicate that the debtor will not fully meet its obligations are considered to be:

1) evident significant financial difficulties of the debtor,
2) breach of contract, such as non-fulfilment of obligations or delay in payment of interest and/or principal or non-fulfilment of other provisions of the contract,
3) the existence of a real probability of initiating bankruptcy proceedings or taking other legal action (financial reorganization) caused by the poor financial position of the debtor,
4) based on the analysis of the System for early identification of increased credit risk and qualitative indicators in the portfolio of placements of legal entities with early detection of increased credit risk are customer reputation, negative experiences related to providing information to the Bank and litigation.

Definition of default status

The status of non-fulfilment of obligations of an individual debtor was created by fulfilling one or both of the following conditions:

(a) the Bank considers it probable that the debtor will not settle in full its obligations to the Bank, its parent company or any of its subsidiaries without regard to the possibility of collection from collateral;
(b) the debtor has not fulfilled its due obligation for more than 90 days under any significant credit obligation to the Bank, its parent company or any of its subsidiaries.
Reassignment of compliance status is possible in cases where all the causes that led to the default status for a minimum period of three months have been eliminated.
It is necessary to analyse the criteria that led to the improvement of the financial condition of the debtor, which allows full and timely repayment of credit obligations and debt repayment is likely. The bank needs to be convinced that the credit quality improvements are real and lasting and that the borrower's financial condition is satisfactory in order to change the default status to the default status. Based on this, changes in the status of obligors or products where the default will occur shortly after regaining status will be monitored and analysed in order to review their policy regarding the reclassification of exposures.

Criteria for Classification and Reduction of Exposure in the A Risk Group

Only exposures towards the debtor who is not in the status of default can be classified in the A Risk Group.
The Bank is obliged to classify the exposures in the risk subgroup:
1) A-1 if after the initial recognition the credit risk of a certain debtor's exposure did not increase significantly,
2) A-2 if after the initial recognition the credit risk of a certain debtor's exposure increased significantly.
The Bank is obliged, in line with the IFRS 9 provisions, to conduct appropriate impairments and provisions for exposures in the amount equal to:
1) expected credit losses in the twelve-month period for the A-1 Risk Subgroup,
2) expected credit losses during the life time for the A-2 Risk Subgroup.

General requirements for the method of assessment of credit losses

Indicators for determination of increased credit risk of a debtor that is used for transition of exposure from the A-1 Risk Subgroup to the A-2 Risk Subgroup are as follows:
1. days of default
2. client suspension
3. worsening of the credit worthiness assessment,
4. natural person's death,
5. appearance on Watch List and Enhanced Credit Risk Early Detection System

The Bank takes the regularity of the debtor in settling arrears as the mandatory indicator. If the debtor is in delay with the payment of their due exposures towards the Bank for more than 30 days, though it is still within the terms not exceeding 90 days, the Bank is obliged to assign them into the A-2 Risk Subgroup.

Model of Calculation of the Expected Credit Loss (ECL) on an Aggregate Base

$$ECL = \sum_{n=1}^{r} (EAD_n * \mathbf{MPD_n} * \mathbf{LGD_n} * \mathbf{DF_n})$$

EAD
The calculation of the exposure due to default status (EAD) represents the exposure at the time of default of the client / receivable. Discounted cash flows are taken into account, as well as potential additional withdrawals from credit lines.

MPD model
In the MPD model, the basic approach of calculating the probability of default occurrence based on transition matrices using Markov chains was applied, after which macroeconomic forecasts are implemented using the z-shift model. The time dimension is obtained by simply multiplying adequate matrices based on projections for future periods.

LGD
The Bank has defined a loss in the event of default of a given financial asset depending on the segment and the existence of collateral on receivables

DF is an abbreviation of the term Discount Factor, i.e. it represents the discount factor for a given period based on the initial effective interest rate. Depending on the size of the effective interest rate, the maturity of the exposure and the delay or application of the expected credit loss, the DF is calculated.

Strategic risk

The Bank has prescribed a Strategic Risk Management Policy aimed at defining the strategic risk to which the Bank is exposed. Strategic risk is the possibility of losses due to the lack of long-term development component of the Bank, wrong business decisions, poor implementation of decisions or lack of sensitivity to market changes.

The risk control function is obliged to report to the Bank's Management Board, the Risk and Audit Committee and the Bank's Supervisory Board on a semi-annual basis on the implementation of the annual balance sheet plans.

Strategic risk is the risk of loss that occurs due to making wrong business decisions, inadaptability to changes in the economic environment and similar.

This risk is related to the Bank's strategic objectives, the business strategy developed to achieve the strategic objectives, the resources used to achieve those objectives and the quality of implementation. The resources needed to implement business strategies are tangible and intangible assets, including communication channels, operating systems, delivery networks, and management capacity and capabilities. Through the measurement process, the Bank will determine the realization of adopted plans, i.e. the level of deviation from the adopted plans and strategic goals of the Bank in order to timely determine the reason for deviations and initiate activities to achieve the strategic goals of the Bank.
Strategic risk protection is a set of guidelines, strategies, methods and activities that clearly define what the Bank wants and how to achieve it, or how to eliminate or mitigate certain deviations. In the process of strategic risk management, the Bank may use the services of external institutions.

Residual risk

The Bank has prescribed a Residual Risk Management Policy aimed at identifying, measuring, managing and monitoring and reporting on residual risk. Residual risk is the risk of loss that arises if recognized credit risk mitigation techniques used by a credit institution are less effective than expected.
Residual risk monitoring and reporting are performed within the Risk Department and the risk control function.
The senior expert associate for monitoring and measuring credit risks submits a report on residual risk management to the Risk Committee at least once every six months.
The Bank measures residual risk by comparing the ratio of uncollected receivables (which were estimated to be fully secured by credit protection) and the total secured receivables with the same type of credit protection.
The second measure is by monitoring the records of real estate sold in court/enforcement/bankruptcy proceedings and the records of initiated and still unsold real estate for the purpose of obtaining information on the marketability of certain types of collateral. Then make a projection of the takeover of property for a period of two years to control the restrictions on the further foreclosure of real estate.

As part of the residual risk management process, if credit risk mitigation techniques prove less effective than expected when approving placements, credit risk control/mitigation measures are adopted.
The effects of credit protection techniques can be improved by lowering the amount of receivables in the estimated value of the instrument used as credit protection, avoiding the use of instruments used as credit protection that prove ineffective, and greater legal certainty of reduction techniques used.

Reputational risk

The Bank has prescribed a Reputational Risk Management Policy aimed at defining reputational risk management. Reputational risk is a possible negative impact on profits and capital that is conditioned by negative public opinion.
Continuous monitoring of reputational threats in the context in which the Bank is mentioned in the media, or occurs in the form of customer complaints, i.e. through the reporting of operational risk and through analysis.
Reputational risk measurement system:
Reputation is shaped by three factors: communication, media coverage (online and print), and customer and public experiences.
In accordance with the above, we measure reputation risk by doing the following:
- analysis of client complaints,
- analysis of media articles in the context of which the Bank is mentioned (positive and negative),
- analysis of reported reputational risks within the operational risk.

The control is performed through the success of the applied results obtained from the analysis on the basis of which there was a targeted action to remove the negative reputation related to the Bank.
The overall compliance with the provisions of the Policy is implemented through the risk control function, sectoral control departments and internal audits according to the adopted annual plans. The Risk Control Function, Sector Control Departments and Internal Audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board after the controls have been performed.
The method of risk protection is the management of reputational risk in a way that directs public opinion about the Bank in the desired way.

Interest rate risk

Within the Interest Rate Risk Management Policy, the book of non-trading positions defines the interest rate risk management process in accordance with the Decision on the Management System.

The process of interest rate risk management in the book of non-trading positions includes the determination or identification of interest rate risk, measurement and monitoring, interest rate risk management; and interest rate risk control and reporting.
Continuous measurement and monitoring of interest rate risk are performed using the methods of GAP interest rate analysis (repricing gap analysis); standardized interest rate shock methods on net interest income within one year; monitoring and analysis of net interest income and interest margin; and analysis of the realization of net interest income plans and calculation of EVE change according to the prescribed shocks in the Management System Decision.

The Bank's Management Board is reported through the internal report on interest rate risk through the Risk Committee, and the Regulator through the Report on interest rate risk management in the book of non-trading positions. Based on the information obtained from the report, the Bank's Management Board manages interest rate risk using interest rate risk management instruments.

The control of interest rate risk in the book of non-traded positions is performed through the quarterly Report on interest rate risk management in the book of non-traded positions, and through the internal quarterly report on interest rate risk, then in the semi-annual report on the risk control function.

The overall compliance with the provisions of the adopted policies is implemented through the Risk Control Function, sectoral control departments and Internal Audit according to the adopted annual plans. After the controls, the Risk Control Function, Sectoral Control Departments and Internal Audit report to the Bank's Management Board, the Risk Committee, the Audit and the Supervisory Board, and specific measures are adopted depending on the situation.

In addition to regulatory limits, the Bank has set internal limits, and the internal limit will be exceeded if the change in the economic value of capital under the influence of the standard interest rate shock (200 bp) in relation to regulatory capital exceeds 15%. In this case, it is necessary to take measures to reduce it. If the EVE decline exceeds 20% of regulatory capital, the Bank is obliged to notify the CNB immediately.
Exceeding the internal limit will occur if the change in the economic value of capital under the influence of any of the six interest rate shock scenarios in relation to the share capital exceeds 11%. In this case, it is necessary to take measures to reduce it. If the EVE decline exceeds 15% of the share capital, the Bank shall immediately notify the CNB.

Based on the Interest Rate GAP Analysis, the Bank's exposure to interest rate risk is determined in the event of changes in prices by placements or sources of funds, and it is necessary to ensure that the maximum cumulative gap between total net interest-bearing assets and total net interest-bearing liabilities up to 12 months under the influence of interest rate increase by 1% does not exceed the limit of 12% of net interest income.

Prescribing and determining the annual plan (by which the Bank determines the planned amounts of placements and sources for individual products and the dynamics of their realization and the absolute size of assets on which the Bank has a contractual right to charge interest in relation to liabilities on which the Bank has a contractual obligation to pay interest); then Decisions on interest rates (which affect the level of interest rates, variability of interest rates or the possibility of contracting variable interest rates, and method of calculating interest rates); and Credit policies (which affect the sectoral structure of placements, the structure of placements by individual credit lines); and Asset and liability management policies (which affect the structure of the Bank's assets and liabilities) take into account the impact of interest rate risk, i.e. they affect the reduction of interest rate risk.
The goal of interest rate risk management is to permanently and stably maintain an acceptable interest margin, i.e. to increase it as much as possible in order to achieve a satisfactory net interest income sufficient to achieve the Bank's planned profitability.

Operational risk

Slatinska banka d.d. in its Risk Management Strategy, prescribes the management of all risks, including operational risk and the entire process of identifying, assessing and monitoring risk, taking into account the Bank's objectives, and taking the necessary actions to reduce risk. The risk management strategy defines the levels of acceptable risks and responsibilities for risk management.
The operational risk management policy defines the operational risk management process, methods, ways and procedures of monitoring operational risks, identification, assessment, control, responsibilities and reporting of operational risks. The policy is part of the Risk Management Strategy.
Operational risk means the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including legal risk.
The overall compliance with the provisions of the adopted policies is implemented through the risk control function, sectoral control departments and internal audit according to the adopted annual plans. After the performed controls, the Risk Control Function, Sectoral Control Departments and Internal Audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board, and specific measures are adopted depending on the situation.
Operational risk control is performed through a quarterly internal report on operational risk, then in the semi-annual report on the work of the Risk Control Function.
Operational risk management is carried out by encouraging employees at all levels to collect data on events that lead to operational risks, maintaining a register of data on operational risks, integrated internal and external control, periodic evaluation and regular reporting.

Risk assessment is carried out using the self-assessment method, using open assessment methods, structured questionnaires and workshops. The results of the assessment are presented through a risk matrix defined by the amount of loss, frequency of loss and level of risk.
In the event of a crisis, the Business Continuity Management Plan will be followed.

Crisis Management Plans and Business Continuity Plans
An Operational Risk Management Committee has been established at the Bank. The main task of the Operational Risk Management Committee is to ensure business continuity and limit losses in cases of significant disruption or interruption of operations. Significant operational risk for Slatinska banka represents a possible financial loss above one million kunas, while a significant impairment of operations represents a loss above the amount of the allocated capital requirement for operational risk. From the point of view of the non-financial indicator, determining the significance of operational risk represents the number of reported events that exceed the usual reports in historical periods for similar types of events.

A significant aspect of operational risk management is implemented through the mechanisms of internal controls of business activities in the sectors, financial centres and branches, and control functions.
Internal practices that are appropriate for controlling operational risk are monitoring compliance with assigned limits, protecting access to funds and records, ensuring appropriate staff expertise, identifying business activities or services where profits do not seem to meet realistic expectations, and regularly checking and reconciling transactions and accounts.
Adequate control procedures (verification of compliance with policies, a system of documented approvals and authorizations), which are an integral part of regular activities, enable rapid response to changing conditions and avoid unnecessary costs, and control culture promotes good risk management practices.

Currency risk

Slatinska banka d.d. in its Risk Management Strategy, prescribes the management of all risks, including currency risk and the entire process of identifying, assessing and monitoring risk, taking into account the Bank's objectives, and taking the necessary actions to reduce risk. The risk management strategy defines the levels of acceptable risks and responsibilities for risk management.
According to the definition of market risks other than currency, position and commodity risk are considered market risks.

The market risk management policy defines the determination or identification, measurement, and management of currency risk; then monitoring, controlling and reporting on currency risk, as well as the acceptable level of currency risk.
The overall compliance with the provisions of the adopted policies is implemented through the risk control function, sectoral control departments and internal audit according to the adopted annual plans. After the performed controls, the Risk Control Function, Sectoral Control Departments and Internal Audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board, and specific measures are adopted depending on the situation.
Currency risk control is performed through a quarterly internal report on currency risk, followed by a semi-annual report on the work of the Risk Control Function.
The Treasury Department continuously monitors the movement of the exchange rate and reports on this to the Liquidity Committee. All significant changes are reported to the Bank's Management Board and the Liquidity Committee without delay.
Currency risk is measured on a monthly and daily basis through the following methods and approaches:
- gap report - a basic model for measuring currency risk. It contrasts the currency items of assets and liabilities and off-balance sheet items, and calculates the Bank's open positions in different currencies;
- daily measurement of the Bank's exposure to currency risk based on the Currency Risk Exposure Report by individual currencies.

The total open foreign exchange position (increased by the position in gold) at the end of each business day, internally adjusted, may not exceed 30% of the Bank's regulatory capital at stable exchange rates, otherwise, currency risk management instruments will reduce it.

Currency risk management is performed by planning the currency structure of the Bank's assets and liabilities, continuously monitoring the exchange rate of individual currencies and forecasting their movement and impact on the Bank's operations in the following ways: Annual Plan, Monthly Liquidity Plan, Monthly exchange rate movements (in the quarterly report).
Based on the established plans and submitted reports, the Bank's Management Board and the Liquidity Committee adopt concrete measures in order to better manage currency risk.

Liquidity risk

The Bank has established a liquidity risk management process and adopted internal acts that are in line with the relevant provisions of applicable regulations in this business segment. Internal acts related to this area are:
- Liquidity risk management policy,
- Rulebook on the work of the Liquidity Committee,
- Liquidity crisis response plan.

The liquidity risk management process consists of identifying liquidity risk, measuring, managing, monitoring, reporting and controlling.

The Treasury Department reports daily, weekly and monthly to the Liquidity Committee on the Bank's liquidity position.
The liquidity risk reporting system includes:
- Monitoring compliance with adopted policies, internal acts and limits,
- Monitoring the liquidity position in total in HRK and foreign currencies,
- Monitoring the results of stress resistance testing.

Concentration risk

The Concentration Risk Management Policy, which is an integral part of the Risk Management Strategy, prescribes a set of procedures and methods for determining, measuring, i.e. assessing, managing and monitoring concentration risk.
Concentration risk is any individual, direct or indirect, exposure to one person or group of related parties or a set of exposures linked by common risk factors such as the same economic sector or geographical area, similar jobs or goods, or the application of credit risk mitigation techniques, which may lead to such losses that could jeopardize the Bank's continued operations.
The risk control function is performed in the Risk Sector, within which the Senior Credit Risk Management Associate performs an independent analysis of concentration and credit risk, and gives a written opinion on the loan proposal for individually significant exposures.
The risk sector reports to the Management Board on a quarterly basis on concentration risk. Also, concentration risk is analysed through semi-annual reports of the risk control function in which all important risks to which the Bank is exposed are controlled and submitted to the Supervisory Board, the Risk and Audit Committee and the Bank's Management Board.

The Bank manages concentration risk in five ways:

1. Exposure to the economic sector (not including exposure to households, credit institutions, the Republic of Croatia and the Croatian National Bank) is measured by the ratio between exposure to the economic sector and total exposure of the Bank and the ratio of value adjustments to total exposure. Economic sector is represented by NKD activity codes;
2. Exposure to investment funds is measured by the ratio between exposure to an individual investment fund and regulatory capital;
3. Exposure to collateral providers and credit protection providers shall be measured by the ratio of such secured exposures to regulatory capital;
4. Exposure according to the Herfindahl-Hirschman Index is measured in three ways:
    a) the ratio of exposure to the fifty largest clients and their related parties and the total exposure,
    b) the ratio of net individual exposure to activities (excluding financial institutions) and total exposure by activity,
    c) the ratio of the sum of large exposures, and after the application of the exemption, both CRM and regulatory capital;
5. Exposure to related party groups by identifying and measuring the concentration of individuals and groups of related parties.

The concentration risk management policy prescribes the amount of exposure to the economic sector, investment funds and collateral providers and credit protection providers, as well as measures to reduce it.

Country risk

The Country Risk Management Policy, which is an integral part of the Risk Management Strategy, prescribes the policy and procedure for identifying, measuring, monitoring and controlling the risk of the country in which the debtor has its registered office or residence.
Country risk is determined on the basis of an assessment of the probability of default of a counterparty domiciled or resident outside the Republic of Croatia arising from economic and political factors specific to a particular country and an assessment of the feasibility of the placement contract and the possibility of liquidation of the collateral according to the legislation of each country in a given period.
In order to monitor country risk, the Treasury Department is obliged to monitor the movement of the credit rating of the country or credit institution in which the free foreign currency funds are placed, and it is obliged to inform the Bank's Management Board twice a year. For those credit institutions that do not have the credit rating of the selected external institution for credit risk assessment, the creditworthiness of the same must be determined semi-annually.
The Treasury Department is required to submit a semi-annual report to the Bank's Credit Committee on the creditworthiness of legal entities with which the Bank has placed funds abroad. Based on the submitted reports, the Credit Committee will propose individual limits of maximum exposure to individual legal entities that have their registered office or residence outside the Republic of Croatia, taking into account the country risk and the profitability of operations.

Leverage risk

Leverage risk means a risk arising from an institution's vulnerability to leverage or potential leverage and that may lead to undesirable changes to its business plan, including the forced sale of assets, which may result in losses or adjustments to the valuation of its remaining assets.
The leverage ratio is calculated by dividing the institution's capital measure by the institution's total exposure measure and is expressed as a percentage.
The Bank calculates the leverage ratio at the reporting date.
The measure of capital is share capital.
The measure of total exposure is the sum of the exposure values of:

1) assets
2) derivatives,
3) increases for the counterparty's credit risk in repo transactions, securities or commodities lending transactions to or from the counterparty, long-term settlement transactions and other margin loans,
4) off-balance sheet items.

Risks arising from exposure to shadow banking entities

It represents the risk of a credit intermediation system that includes entities and activities outside the regulated banking system.
By defining credit intermediation activities, the Bank placed emphasis on all entities that perform activities similar to banking, are exposed to similar risks, and are not subject to a similar regulatory framework. Such exposures will be identified and defined as shadow banking exposures.
When processing the Request for the Bank's exposures to the client, it is necessary to determine whether these are shadow banking entities by the credit officer/clerk of the Treasury Department who processes the request. The control in the form of an opinion is prepared by the Senior Expert Associate for Credit Risk Management. If there is an item in the client's assets given loans and/or in the income statement financial income, such client must be processed in more detail in the direction of

determining whether these are shadow banking entities. Process in such a way as to determine the share of loans granted, deposits in total assets and the share of fiscal revenues in total revenues.

Summary of the internal capital adequacy assessment procedure

Significant risks	Assessment of risk significance	Explanation of significance assessment	Treatment in ICAAP	
			Qualitative (YES/NO)	Quantities (YES/NO)
Credit risk	5	The risk was assessed as high risk (5) from both economic and P/L aspects, and accordingly, the final assessment of significance was 5.	NO	YES
Concentration risk	3	The risk was assessed as economic from the economic aspect and from the P/L aspect (3), and due to the importance of risk management and risk quantification within the ICAAP, the final significance of the risk was assessed as medium (3).	NO	YES
Management risk	2	The risk was assessed from the qualitative aspect as low risk (2) and the final significance of the risk was assessed as low (2). Under the ICAAP, it is classified as other risks.	YES	NO
Currency induced credit risk	2	The risk was assessed as low risk (2) from the economic aspect and intangible (1) from the P/L aspect, and due to the importance of managing this risk and quantifying the risk within the ICAAP, the final significance of the risk was assessed as low.	NO	YES
Interest rate risk in the Bank's books	3	The risk was assessed as medium risk (3) from the economic point of view, while from the P/L aspect it was assessed as immaterial. The final significance score is the medium significance (3).	NO	YES
Currency risk	1	The risk was assessed as immaterial (1) from both the economic and P/L aspects, as the Bank generally holds a very low open position and generally does not allocate regulatory capital requirements. However, due to the importance of managing this risk, the Bank allocates capital requirements and protects itself against possible adverse events in the future.	NO	YES
Liquidity risk including the possibility of raising additional capital	2	Liquidity risk was assessed as low (2) from both economic and P/L aspects because the Bank maintains a very high level of liquidity reserves. Finally, the significance of the risk was assessed as low.	YES	NO
Operational risk	4	The risk was assessed as medium-high (4) from the economic aspect, the P/L aspect and the qualitative aspect, and accordingly, the significance of the risk is very high (4).	NO	YES

Strategic risk	2	The risk was rated from the P/L and qualitative aspect as low risk (2) and the final significance of the risk was rated as low (2).	YES	NO
Leverage risk	2	From a qualitative point of view, the risk was assessed as low risk (2) and it was assigned low significance (2).	YES	NO
Impact of external factors	2	Based on the desired risk profile and planned growth, the Bank will control and monitor the risk of excessive leverage as a tool to control the disproportionate growth of exposure in relation to regulatory capital.	YES	NO
Country risk	2	From a qualitative point of view, the risk was assessed as low risk and was given low significance (2).	YES	NO
Residual risk (real estate marketability risk)	3	The risk was assessed as immaterial (1) from both economic and P/L aspects, however due to the significant share of the loan portfolio secured and classified under the real estate collateral instrument, due to the importance of managing this risk and the fact that risk is quantified in ICAAP, the significance was rated as medium (3).	NO	YES
Shadow banking	2	From a qualitative point of view, the risk was assessed as low risk and was given low significance (2).	YES	NO
Compliance risk (Regulation breach and conflict of interest risk)	2	From a qualitative point of view, the risk was assessed as low risk and was given low significance (2).	YES	NO
Risk of non-purpose cash loans to households	3	The risk was assessed as medium (3) on the basis of the economic approach, while on the basis of the P/L approach the assessment was low (2). The qualitative assessment and the final assessment of the significance of the risk are medium (3).	NO	YES
Reputational risk	2	The risk was assessed as low and immaterial, and based on the qualitative aspect, the final assessment was low risk and low significance (2).	YES	NO

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

In accordance with the rules of the Zagreb Stock Exchange, the Management Board and the Supervisory Board of Slatinska Banka d.d. state that Slatinska Banka d.d. applies the Corporate Governance Code jointly developed by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange.

Attached to this Statement is the Annual Questionnaire for the Business Year 2021.

The Bank has established a system of internal controls that is achieved through the parallel operation of three mutually independent functions: risk control functions, compliance monitoring functions and internal audit functions. The main features of the Bank's internal control system are reflected in the independent control holders responsible for identifying, assessing and managing risks, including risk control and the compliance function, while internal audit oversees the Bank's overall operations.

Data on the implementation of internal control and risk management and data on the Bank's shareholders are contained in the Notes to the financial statements.

In accordance with the provisions of the Bank's Articles of Association, the Management Board consists of two to five members. The decision on the number of members of the Management Board is made by the Supervisory Board of the Bank.
Members of the Bank's Management Board must meet the conditions for performing the function of a member of the Management Board prescribed by the Companies Act, the Credit Institutions Act and relevant bylaws and internal acts of the Bank (adequacy, good reputation, required expertise interests and a commitment to the fulfilment of duties). The members of the Management Board must together have the professional knowledge, skills and experience necessary for the independent and autonomous management of the credit institution.
The suitability of an individual member of the Bank's Management Board for the performance of the respective function represents the extent to which that person has the characteristics and meets the prescribed conditions which ensure that he/she will perform his/her duties legally, safely and stably.

The competence of the members of the Management Board is prescribed by the Rules of Procedure of the Management Board. Management makes decisions and conclusions at sessions.

On 31 December 2021, the affairs of the Management Board are performed by 3 members (the President of the Management Board and two members of the Management Board).

The Supervisory Board supervises the Bank's management and is obliged to perform activities determined by the Companies Act, the Credit Institutions Act, the Bank's Articles of Association and the Rules of Procedure of the Supervisory Board, which includes appointing (with the prior consent of the Croatian National Bank) and recalling members.
The Supervisory Board makes decisions at its meetings. Convening and holding sessions, decision-making procedures and authorizations are prescribed by the Rules of Procedure of the Supervisory Board.
The members of the Supervisory Board of the Bank, in accordance with the assessment of their suitability in accordance with internal acts, together as a whole meet all the prescribed requirements regarding the diversity of knowledge, expertise and experience.
As part of the Supervisory Board, out of a total of 3 members of the Supervisory Board as at 31 December 2021, all members are men. The process for electing two members is ongoing.

Professional diversity is represented in the assessment and selection of members of the Management Board and the Supervisory Board.
Data on the composition and operation of the Management Board and the Supervisory Board of the Bank are presented in the attached Annual Questionnaire.

The Bank's shareholders exercise their rights in the General Assembly of the Bank. The General Assembly decides on matters provided by law and the Bank's Articles of Association. The General Assembly is convened by the Management Board or the Supervisory Board at least once a year and when required by the interests of the Bank.

The Rules on Amendments to the Bank's Articles of Association are contained in the Articles of Association. The decision on amendments shall be made by the General Assembly of the Bank in accordance with the law and the Articles of Association, by votes representing at least three-quarters of the share capital represented at the General Assembly in making a decision.
Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board and the Bank's shareholders.

In order to protect the interests of all investors, shareholders, clients, employees and others who have an interest, the Bank has established high standards of corporate governance

CORPORATE GOVERNANCE CODE

BASIC INFORMATION ABOUT THE COMPANY:	**Slatinska banka d.d.**
CONTACT PERSON AND PHONE NUMBER:	**Nataša Vedrina Jarić, M: +385 (0) 99 3591136**
DATE FOR COMPLETION OF THE QUESTIONNAIRE:	**March 2022**

All questions contained in this questionnaire refer to the period of one business year, to which the annual financial statements also refer.
For the questions contained in the questionnaire, it is necessary to write an explanation only if the question explicitly requires it.
The answers in the questionnaire are evaluated by a certain percentage, which is expressed at the beginning of each chapter.

COMMITMENT TO THE PRINCIPLES OF CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The answers to this set of questions carry 20% of the overall indicator in relation to the company's compliance with the corporate governance code.

	Question no.	Question	Answer YES/NO	Explanation
	1	Has the company accepted the application of the Corporate Governance Code of the Zagreb Stock Exchange?	YES	
	2	Does the company have its own code of corporate governance?	YES	

	3	Are there adopted principles of the corporate governance code within the internal policies of the company?	YES	The Bank has adopted internal acts, the Code of Business Conduct and Ethics and the Conflict of Interest Management Policy, which in the broadest sense define the modalities of desirable as well as impermissible conduct. Also, there are other internal acts which regulate the subject matter in more detail, and which are harmonized with the positive regulations.
	4	Does the company publish compliance with the principles of corporate governance in its annual financial statements?	YES	

SHAREHOLDERS AND THE GENERAL ASSEMBLY

The answers to this set of questions carry 30% of the overall indicator in relation to the company's compliance with the corporate governance code.

	Question no.	Question	Answer YES/NO	Explanation
	5	Is the company in a mutual shareholding relationship with another company or companies? (if yes, explain)	NO	
	6	Does each share of the company give the right to one vote? (If not, explain)	YES	
	7	Are there cases where any of the shareholders have been treated differently? (if yes, explain)	NO	
	8	Is the issuance of a power of attorney to vote at the General Assembly extremely simplified and without strict formal requirements? (If not, explain)	YES	
	9	Has the company provided proxies to shareholders who, for any reason, are not able to vote at the General Assembly on their own, without special costs, and who are obliged to vote in accordance with their instructions? (If not, explain)	NO	The shareholders themselves take care of the insurance of the proxy. The bank provides a power of attorney form.
	10	Did the Management or the Board of Directors of the company set the date according to which the situation in the register of shares will be determined, which will be relevant for exercising the right to vote in the General Assembly, so that the date is before the general assembly and may not	YES	

		exceed six days before assembly? (If not, explain)		
	11	Have the agenda of the General Assembly, as well as all relevant data and documents with explanations related to the agenda, been published on the company's website and made available to shareholders on the company's premises from the day of the first public announcement of the agenda? (If not, explain)	YES	
	12	Does the decision on payment of dividend or advance dividend contain the date on which the person who is a shareholder acquires the right to dividend payment and the date or period when the dividend is paid? (If not, explain)	NO	The company did not pay a dividend
	13	Is the date of dividend payment or dividend advance no more than 30 days after the date of the decision? (If not, explain)	NO	The company did not pay a dividend
	14	Are there cases when individual shareholders are favoured when paying dividends or advance dividends? (if yes, explain)	NO	The company did not pay a dividend
	15	Are the shareholders enabled to participate and vote at the general assembly of the company using the means of modern communication technology? (If not, explain)	YES	The new statute provides for such participation and voting
	16	Are the conditions set for participation in the General Assembly and the exercise of the right to vote (regardless of whether they are allowed by law or the statute), such as registration of participation in advance, certification of power of attorney and the like? (if yes, explain)	YES	In accordance with the Companies Act, the Statute requires participation in the work of the General Assembly by prior registration with the company.
	17	Has the company's management publicly announced the decisions of the general assembly?	YES	
	18	Has the company's management publicly disclosed information about possible lawsuits against these decisions? (If not, explain)	NO	There were no such lawsuits

MANAGEMENT AND SUPERVISORY BODIES

LIST NAMES AND FUNCTIONS OF THE MANAGEMENT BOARD	**Andrej Kopilaš – President** **Marin Prskalo - Member** **Oliver Klesinger - Member**
LIST NAMES AND FUNCTIONS OF THE SUPERVISORY BOARD	**Dušan Banović - President** **Srećko Vukić - Member** **Domagoj Karačić - Member**

The answers to this set of questions carry 20% of the overall indicator in relation to the company's compliance with the corporate governance code.

	Question no.	Question	Answer YES/NO	Explanation
	19	Has the Supervisory Board or the Management Board made a decision on the framework plan of its work, which includes a list of regular meetings and information that should be made available to the members of the Supervisory Board on a regular and timely basis? (If not, explain)	YES	
	20	Has the Supervisory Board or the Management Board adopted internal rules of operation?	YES	
	21	Does the company have independent members on the Supervisory Board or the Management Board? (If not, explain)	YES	
	22	Is there a long-term succession plan in the company? (If not, explain)	YES	
	23	Is the remuneration received by the members of the Supervisory or Management Board determined in whole or in part according to the contribution to the company's success? (If not, explain)	NO	The fee of the Supervisory Board is fixed, determined by the Assembly and is not determined according to the contribution to the success
	24	Is the remuneration of the members of the Supervisory or Management Board determined by a decision of the General Assembly or the Articles of Association? (If not, explain)	YES	It was determined by a decision of the General Assembly.

	25	Are detailed data on all remuneration and other income from the company or persons related to the company of each individual member of the Management Board or executive directors, including the remuneration structure, publicly disclosed (in the annual financial report)? (If not, explain)	NO	The annual report and the Public Announcement show financial data on the total related costs of the company, which contains aggregate data for members of the Management Board.
	26	Are detailed data on all remuneration from the company or persons related to the company of each individual member of the company's Supervisory or Management Boards, including the remuneration structure, publicly disclosed (in the annual financial report)? (If not, explain)	NO	The annual report shows financial data on the total related costs of the company, which contains aggregate data for members of the Supervisory Board
	27	Does each member of the Supervisory or Management Board report to the company on all changes regarding its acquisition, dismissal or the possibility of exercising voting rights over the company's shares immediately, and no later than three working days from the date of the transaction? (If not, explain)	YES	
	28	Are all the activities in which the members of the Supervisory or Management Board or related persons and the company or related persons participated in it clearly stated in the company's reports? (If not, explain)	YES	
	29	Are there any contracts or agreements between the member of the Supervisory or Management Board of the company and the company itself?	NO	
	30	Have they been previously approved by the Supervisory or Management Board? (If not, explain)		See answer under 29.
	31	Are the essential elements of such contracts or agreements contained in the annual report? (If not, explain)		See answer under 29.
	32	Has the Supervisory or Management Board set up an Appointment Committee?	NO	The Supervisory Board performs the tasks of the Board
	33	Has the Supervisory or Management Board set up a Remuneration Committee?	NO	The Supervisory Board performs the tasks of the Board

	34	Has the Supervisory or Management Board established an Audit Committee?	YES	The Risk and Audit Committee was established as the board within the Supervisory Board.
	35	Are the majority of the members of the Audit Committee from the ranks of independent members of the Supervisory Board? (If not, explain)	YES	
	36	Has the Audit Committee monitored the integrity of the company's financial information, and in particular the correctness and consistency of the accounting methods used by the company and the group to which it belongs, including the criteria for consolidating the financial statements of the companies belonging to the group? (If not, explain)	YES	
	37	Has the Audit Committee assessed the quality of the internal control and risk management system, with the aim of properly identifying and publicizing and managing the main risks to which the company is exposed (including compliance risks)? (If not, explain)	YES	
	38	Has the Audit Committee worked to ensure the effectiveness of the internal audit system, in particular by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and the resources available to him, and assessing the manager's actions on internal audit findings and recommendations? ? (If not, explain)	YES	The quarterly reports of the Internal Audit, which are presented to the Audit Committee, also contain a part related to the professional advancement and education of the employees of the Internal Audit. Furthermore, the Audit Committee makes a recommendation to the Supervisory Board for the selection, appointment, reappointment and dismissal of the head of the internal audit department based on the “fit and proper” assessment procedure. Any restrictions related to the budget for the implementation of planned activities of the Internal Audit function, if any, are also included in the quarterly report.
	39	If there is no internal audit function in the company, has the Audit Committee assessed the need to establish such a function? (If not, explain)	NO	The Bank has an internal audit function.
	40	Has the Audit Committee monitored the independence and objectivity of the external auditor, in particular	YES	

		regarding the rotation of certified auditors within the audit firm and the fees paid by the company for external audit services? (If not, explain)		
	41	Has the Audit Committee monitored the nature and amount of non-audit services that the company receives from the audit firm or its affiliates?	NO	There were no such services
	42	Has the Audit Committee developed rules on which services the external audit firm and its affiliates may not provide to the company, which services it may provide only with the prior consent of the committee, and which services it may provide without prior consent? (If not, explain)	NO	The rules related to non-audit services are defined by the legal framework and therefore there is no need for additional rules to be defined by the Risk and Audit Committee.
	43	Has the Audit Committee considered the effectiveness of the external audit and the actions of senior management in light of the recommendations made by the external auditor? (If not, explain)	YES	Internal audit continuously monitors the status of resolving recommendations made by the external auditor. Through quarterly reports, Internal Audit reports to the Risk and Audit Committee and the Supervisory Board on their progress and the status of the implementation of corrective measures.
	44	Is the documentation relevant for the work of the Supervisory and Management Board delivered to all members on time? (If not, explain)	YES	
	45	Are all decisions made with the voting results recorded in the minutes of the meetings of the Supervisory Board or the Management Board? (If not, explain)	YES	
	46	Have the Supervisory Board or the Management Board made an assessment of its work in the past period, which includes evaluating the contribution and competence of each individual member, as well as the joint work of the board, evaluation of the work of commissions established and assessment of achievements?	YES	For the most part in the report on the work of the Supervisory Board for the past year submitted to the General Assembly.
	47	Are detailed data on all remuneration received by each member of the Management Board or executive directors from the company publicly disclosed in the company's annual report? (If not, explain)	NO	The annual report and the Public Announcement show financial data on the total related costs of the company, which contains aggregate data for members of the Management Board.

	48	Are all forms of remuneration of members of the Management Board and the Supervisory Board, including options and other benefits of the Management Board, publicly disclosed by detailed individual items and persons in the company's annual report? (If not, explain)	NO	Data on remuneration to members of the Management Board and key management in aggregate amounts are published in the Annual Report. Data on remuneration of members of the Supervisory Board were published as part of the decisions of the General Assembly.
	49	Are all the activities in which the members of the Management Board or the executive directors participated and the persons related to them and the company or persons related to it clearly stated in the company's reports? (If not, explain)	YES	
	50	Does the report submitted by the Supervisory Board or the Board of Directors to the General Assembly contain, in addition to the content of the report prescribed by law, an assessment of the overall performance of the company, the company's management and a special review of its cooperation with the management? (If not, explain)	YES	

AUDIT AND INTERNAL CONTROL MECHANISMS

The answers to this set of questions carry 10% of the overall indicator in relation to the company's compliance with the corporate governance code.

	Question no.	Question	Answer YES/NO	Explanation
	51	Does the company have an external auditor?	YES	
	52	Is the external auditor of the company related to the company by ownership or interest?	NO	
	53	Does the external auditor of the company, alone or through related parties, provide other services to the company?	NO	
	54	Has the company publicly disclosed the amounts of fees paid to external auditors for the performed audit and for other services provided? (If not, explain)	NO	In the Annual Financial Report for 2021, the Bank stated audit costs for 2021 within the costs of services.
	55	Does the company have internal auditors? (If not, explain)	YES	

	56	Does the company have an established system of internal control? (If not, explain)	YES	

TRANSPARENCY AND BUSINESS PUBLICITY

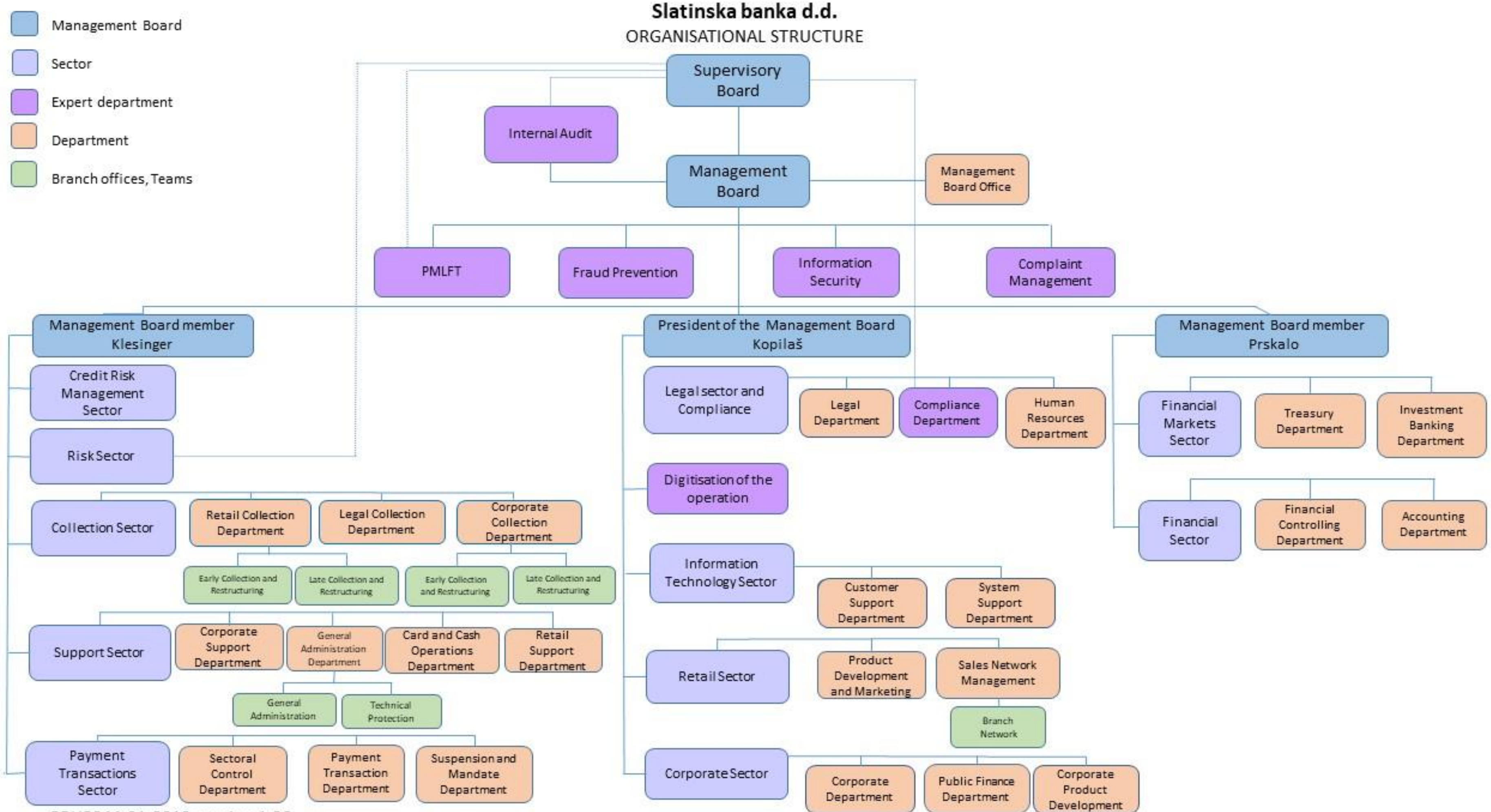
The answers to this set of questions carry 20% of the overall indicator in relation to the company's compliance with the corporate governance code.

	Question no.	Question	Answer YES/NO	Explanation
	57	Are annual, semi-annual and quarterly reports available to shareholders?	YES	
	58	Has the company made a calendar of important events?	NO	
	59	Has the company established mechanisms to ensure that persons who have or come into contact with inside information are made aware of the nature and significance of that information and the limitations in this regard?	YES	
	60	Has the company established mechanisms to ensure control over the flow of inside information and its possible misuse?	YES	
	61	Has anyone suffered negative consequences because he pointed out shortcomings in the application of regulations or ethical norms within the company to the competent bodies or authorities in the company or outside it? (if yes, explain)	NO	
	62	Has the company's management held meetings with interested investors in the past year?	NO	The bank has a stable shareholder structure and maintains continuous communication with majority investors. For this reason, there was no need for special meetings with shareholders or investors other than holding the Annual General Assembly.
	63	Do all members of the Management and the Supervisory Board agree that the allegations made in the answers to this questionnaire are, to the best of their knowledge, entirely true?	YES	

INFORMATION ON SHARES

In 2021, the Bank did not repurchase its own shares.
The share of repurchased treasury shares in the share capital amounts to a total of 7.77%.
Members of the Management Board of Slatinska banka do not own shares in Slatinska banka.

Slatinska banka d.d.
ORGANISATIONAL STRUCTURE



PRUP044-01-2018 version 1.06

Business network of Slatinska banka d.d.

ZAGREB OFFICE
Trg žrtava fašizma 2, 10 000 Zagreb
Tel: 01/645-9020

BRANCH ZAGREB
Tomašićeva 2, 10000 Zagreb
tel: 01/645-9005

BRANCH RIJEKA
Jelačićev trg 2, 51000 Rijeka
tel: 051/563-505

BRANCH VALPOVO
Trg kralja Tomislava 6, 31550 Valpovo
tel: 031/628-165

BRANCH DONJI MIHOLJAC
Vukovarska 4, 31540 D.Miholjac
tel: 031/628-185

BRANCH NAŠICE
Trg Izidora Kršnjavog 3, 31500 Našice
tel: 031/628-145

BRANCH ĐAKOVO
Stjepana Radića 9, 31400 Đakovo
tel: 031/628-455

BRANCH SLAVONSKI BROD
Matije Gupca 39, 35000 Slavonski Brod

BRANCH SLATINA – BANK HEADQUATERS
V.Nazora 2, 33520 Slatina
tel: 033/637-011

BRANCH OSIJEK
Županijska 13, 31000 Osijek
tel: 031/628-205

BRANCH VIROVITICA
Trg kralja Tomislava 6, 33000 Virovitica
tel: 033/637-185

BRANCH DARUVAR
Kralja Tomislava 22, 43500 Daruvar
tel: 043/638-305

BRANCH POŽEGA
Kamenita vrata 4, 34000 Požega
tel: 034/638-505

BRANCH ORAHOVICA
Kralja Zvonimira 9, 33515 Orahovica
tel: 033/637-145

BRANCH KOPRIVNICA
Dr. Željka Selingera 2a, 48000 Koprivnica
tel: 048/617-105

SLATINSKA BANKA d.d.
Vladimira Nazora 2, 33520 Slatina
Tel:033/637-000
Fax:033/637-019
www.slatinska-banka.hr
slatinska-banka@slatinska-banka.hr

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of Slatinska banka d.d., Vladimira Nazora 2, Slatina („the Bank“) is responsible for ensuring that the annual financial statements for the year 2021, are prepared in accordance with the applicable Croatian Accounting Act (OG 78/15, 134/15. 120/16. 116/18 and 47/20) and International Financial Reporting Standards (IFRS) as determined by the European Commission and published in the Official Journal of the EU, to give a true and fair view of the financial position, the results of operations and cash flows of the Bank for that period. The Management Board is responsible for keeping the proper accounting records, which at any time enable the preparation of financial statements and their compliance with the Accounting Act and IFRSs.

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

The Management Board is responsible for the submission to the Supervisory Board of its Annual Report which includes the annual financial statements. If the Supervisory Board approves the Annual Report it is deemed confirmed by the Management Board and Supervisory Board.

The Management Board has the responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for the preparation and content of the Management Board Report, Corporate Governance Statement and other information as required by the Croatian Accounting Act. It is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20 and 119/21).

The annual financial statements on pages 10 to 79, as well as supplementary forms for the Croatian National Bank and the reconciliation of the statutory financial statements with the supplementary forms of the Croatian National Bank, set out on pages 80 to 93, and Management Board Report, the Statement on the Implementation of Corporate Governance Code and other information enclosed to these annual financial statements, are approved by the Management Board on 30 March 2022 and submitted to the Supervisory Board for approval, as confirmed by the signatures below.

Andrej Kopilaš President of the Management Board	Marin Prskalo Member of the Management Board	Oliver Klesinger Member of the Management Board

Slatinska banka d.d.
Vladimira Nazora 2
33520 Slatina
Republic of Croatia
Slatina, 30 March 2022

SLATINSKA BANKA d.d. 1

PKF Fact Revizija

Independent Auditor's Report to the shareholders of Slatinska banka d.d., Slatina

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS

OPINION

We have audited the annual financial statements of Slatinska banka d.d. Slatina, Vladimira Nazora 2 („the Bank“), which comprise the Statement of Comprehensive Income for the year ended 31 December 2021, the Statement of Financial Position as at 31 December 2021, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended, and the Notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, its financial performance and cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards (IFRS) established by the European Commission and published in the Official Journal of the EU.

BASIS FOR OPINION

We performed the audit in accordance with the Accounting Act, Auditing Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the annual financial statements section of our Independent Auditor’s Report.

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER

The impact of the COVID-19 pandemic and the war in Ukraine on the Bank's operations

We draw attention to Note VII to the financial statements describing the impact of the Covid-19 pandemic and the war in Ukraine on the Bank's operations, the financial position of clients, the Bank and the economy as a whole.

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS
(continued)

KEY AUDIT MATTERS

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the annual financial statements of the current period. We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters. We have determined that the following matter was key audit matter and should be published in our Independent Auditor's report.

<table>
<tr><th>Key audit matter</th><th>How we addressed the key audit matter</th></tr>
<tr><td>
Impairment of loans and advances to customers
In the note to the Bank's annual financial statements No. 19 - Loans and advances to customers, the gross value is stated in the amount of HRK 944,628 thousand, the related impairment (provision for impairment) in the amount of HRK 101,733 thousand, and impairment loss recognized in profit or loss in the amount of HRK 7,233 thousand (as at 31 December 2020 Loans and advances to customers with a gross value of HRK 935,312 thousand, impairment of loans of HRK 130,273 thousand, and impairment loss of HRK 10,096 thousand).
This area has been identified as a key audit matter because credit risk is the most important financial risk to which the Bank is exposed and directly affects the preservation of capital and requires significant assumptions by the Management in determining the amount of impairment.
Determining the appropriate impairment uses subjective assumptions and judgments in estimating the amount of impairment provisions by the Bank's Management, which relates to determining when the impairment is recognized and the amount of the impairment.
Management has performed an assessment of the entire remaining portfolio by estimating the expected credit loss (hereinafter “ECL”) for individual loans in accordance with the requirements of International Financial Reporting Standard 9 (hereinafter "IFRS 9").
</td><td>
Auditing procedures
Our audit procedures in this area includes, among others:

Review of the financial asset management model, review of placement groups and the method of recording and evaluating loans;
Gaining an understanding of the functioning of the internal control system related to the process of assessing the required impairment of loans and advances to customers and related provisions for ECL, established by the Management Board; and verifying their effectiveness;
Review and assessment of the methodology for recognizing provisions for ECLs, including estimates of the probability of default (PD), loss given default (PD) and default exposure (EAD);
Evaluating the quality of historical financial information used, assessing the appropriateness of related collateral estimates, the appropriateness of the assumptions used, checking the circumstances and events related to financial assets, and used macroeconomic prospective information that causes the need for impairment due to ECL;
Review of the classification of loans into regular loans, loans with a significant increase in credit risk and loans that require a reduction, in accordance with IFRS 9, but also in accordance with the Decision on the classification of placements and off-balance sheet liabilities of credit institutions

</td></tr>
</table>

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

KEY AUDIT MATTERS

Key audit matter	How we addressed the key audit matter
In determining the time and amount of required impairment for loans and advances to customers in its measurement model, the Management Board used subjective judgments in the following significant areas of assessment: • The level of reliance on historical data in the process of determining risk parameters, • Allocating credit risk to an appropriate level for individual and total exposure, • Assessment of changes that indicate significant deterioration that requires a change in the level of credit risk and related ECL over the life of the instrument, • Estimation of expected future cash flows from operating activities, • Estimation of collateral value and duration of its liquidation. The Bank continuously adjusts the parameters of the model, which also requires our increased attention during the audit. Due to the financial significance of impairment provisions, their impact on the financial statements, the intensity of the use of subjective assumptions and judgments in estimating the amount of impairment provisions required, and the complexity of the valuation models used; we concluded that impairment as the consequence of impairment provisions and connected loans and advances to customers is our key audit issue during the audit of the Bank's financial statements for the year ended 31 December 2021.	• Assessment of the adequacy of disclosures in relation to International Financial Reporting Standards For impairment determined on an individual basis we: • selected a sample of loans with the highest amount and the highest risk, as well as a randomly selected sample by individual characteristic groups of placements, • reviewed the adequacy of the criteria used to determine the significant deterioration of credit risk and the accuracy of financial information to identify loans where there is a need for impairment, recalculation or critical review of the assessment of financial position and performance, expected future cash flows, time required for collection, appropriateness of collateral valuation and assessment of financial performance from collateral realization. For impairment determined on an aggregate basis we: • assessed the appropriateness of the assumptions used to calculate the probability of default over the life of the instrument (PD) and the loss given default (LGD), • assessed the appropriateness of measuring the required impairment for ECL through the acceptability of assessing financial position and performance, estimating expected future cash flows, the time required to collect exposures, the appropriateness of valuing collateral and assessing the financial impact of using collateral to collect outstanding exposures,

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

KEY AUDIT MATTERS

Key audit matter	How we addressed the key audit matter
Related disclosures in the annual financial statements See Notes III - Summary of accounting policies, 3.9. - Financial assets; 13. - Impairment; 19. - Loans and advances to customers, 37. - Credit risk, and VI - Financial risk management - to the financial statements.	• assessed the adequacy of the classification of exposures and the calculation of the ECLs of individual exposures on the balance sheet date, as well as their compliance with the requirements of the CNB, • performed evidence-based testing of a selected sample of loans and related receivables to assess the correctness of the classification and valuation of loans.

OTHER INFORMATION IN THE ANNUAL REPORT

The Management is responsible for other information. Other information includes information included in the Annual Report, which also contains the Bank's Management Report. Our opinion on the financial statements does not include other information, or the Bank's Management Report.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the section of our Independent Auditor's report entitled Report on Other Legal Requirements, and we do not express any form of conclusion with assurance on them.

In relation to our audit of the annual financial statements, it is our responsibility to read other information and, in doing so, consider whether other information is materially inconsistent with the annual financial statements or our audit findings or otherwise appears to be materially misstated.

In connection with the Bank's Management Report, we also performed the procedures prescribed by the Accounting Act. Based on the procedures performed, to the extent possible, we report that in all significant respects:

- the information included in other information is in accordance with the attached annual financial statements;
- the Management Report of the Bank for 2021 is prepared in accordance with Article 21 of the Accounting Act:
- the Implementation of Corporate Governance Code is prepared in accordance with Article 22, paragraphs 3 and 4; and includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information; we are required to report that fact. In that sense, we have nothing to report.

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE ANNUAL FINANCIAL STATEMENTS

The Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS and the Accounting Act, and for such internal controls as the Management determines necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the annual 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 higher 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 made based on these annual 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 annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

- make conclusion on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or if such disclosures are inadequate, to modify our opinion.
- Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related safeguards.

Among the matters we are communicating with those charged with governance, we determine those matters that are of utmost importance in revising the financial statements for the current period and are therefore key audit matters. We describe these matters in our Independent Auditor's report unless the law or regulations prevents public disclosure or when, in exceptionally rare circumstances, we decide that the matter should not be reported in our Independent Auditor's report as it can reasonably be expected that the negative effects of the announcement will surpass the welfare of public interest in such disclosure.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT BASED ON THE REGULATION (EU) NO. 537/2014

- The General Assembly of the Bank appointed us on 28 June 2021 to perform the audit of the annual financial statements for 2021. For the first time, we have been appointed the Bank's auditor for 2019. The audit of the financial statements for the year ended 31 December 2020 represents our third year of audit.

PKF Fact Revizija

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (continued)

REPORT BASED ON THE REGULATION (EU) NO. 537/2014(continued)

- Apart from the issues we have identified in our Independent Auditor's report as key audit matters within the subtitle Audit Report on the Annual Financial Statements, we have nothing to report on point (c) of Article 10 of Regulation (EU) No 1095/2010. 537/2014.
- Our statutory audit of the Bank's annual financial statements for 2021 is capable of detecting irregularities, including fraud, in accordance with Section 225, Responding to Non-Compliance with Laws and Regulations of the IESBA Code, which requires us to review whether our engagement is generally recognized to have a direct effect on the determination of significant amounts and disclosures in their annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in its annual financial statements but compliance with what might be crucial for Bank's operations and its ability to continue as a going concern.
- Unless we encounter or become aware of non-compliance with any of the foregoing laws or regulations that is, in our judgement manifestly insignificant, in its content and impact, financial or otherwise, to the Bank, its stakeholders and the general public; we are obligated to inform the Bank and request that it investigates the case and takes appropriate measures to address the irregularities and to prevent them from recurring in the future. If the Bank does not correct the irregularities in the audited annual financial statements as of the date of the audited balance sheet that is cumulatively equal to or greater than the materiality of the financial statements as a whole, we are required to modify our opinion in the independent auditor's report.
- In the audit of the Bank's annual financial statements for the year ended 31 December 2021, we determined materiality for the annual financial statements as a whole in the amount of HRK 15,359 thousand, which represents approximately 1% of the Bank's total assets. We have selected the Bank's assets as the most appropriate benchmark for the Bank's operations.
- We confirm that our audit opinion on the financial statements is in accordance with the supplementary report to the Audit Board of the Bank issued on 30 March 2022 in accordance with Article 11 Regulation (EU) No 537/2014 of the European Parliament and of the Council.
- To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited by Article 5 (1) of Regulation (EU) No. 537/2014, and we did not provide other permitted non-audit services to the Bank in the period from 1 January to 31 December 2021, i.e. until the date of this report, as well as in the year preceding that period, and we have maintained our independence from the Bank.

PKF Fact Revizija

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (continued)

REPORT BASED ON THE ACCOUNTING ACT

- Based on the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/18, 122/20 and 119/21; hereinafter “the Decision”), the Management Board prepared the forms shown on pages 80 to 93, under the headings Statement of financial position (Balance Sheet) as at 31 December 2021, Statement of profit or loss, Statement of cash flows and Statement of changes in equity of the Bank for the year then ended; together with information on compliance with the financial statements of the Bank. The Management Board is responsible for the preparation of these forms and information on compliance with the Bank's annual financial statements, which do not form an integral part of these annual financial statements but contain the information required by the Decision. The financial information in the forms is based on the audited annual financial statements of the Bank prepared in accordance with the legal requirements for accounting of banks in the Republic of Croatia are presented on pages 80 to 93 and adjusted to the requirements of the Decision.
- The partner engaged in the audit of the Bank's annual financial statements for the year ended 31 December 2021 resulting in this Independent Auditor's Report is Jeni Krstičević, Certified Auditor.

Zagreb, 30 March 2022

PKF FACT revizija d.o.o.
Zadarska 80
10000 Zagreb

Daniela Šunjić, dipl. oec.
President of the Management Board

PKF FACT revizija d.o.o.
ZAGREB, OIB: 66538066056
6

Jeni Krstičević, univ.spec.oec.rra.
Certified Auditor

SLATINSKA BANKA d.d., Slatina
STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2021

POSITION	Note	2021	2020
		HRK '000	HRK '000
Interest income	4	52,668	55,259
Interest expenses	5	(3,411)	(6,159)
Net interest income		**49,257**	**49,100**
Fee and commission income	6	12,614	11,514
Fee and commission expenses	7	(3,841)	(3,736)
Net fee and commission income		**8,773**	**7,778**
Income from dividends			
Net gains (losses) on derecognition of financial assets and liabilities at fair value through general comprehensive income	8(a)	160	48
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	8(b)	(224)	(2,635)
Net gains (losses) on non-marketable financial assets that are measured at fair value through profit or loss	8(c)	2,006	1,984
Net income from exchange rate differences	8(d)	54	(192)
Other operating income	9	1,232	3,009
Other operating expenses	10	(931)	(990)
Net trading profit and other income		**60,327**	**58,102**
Employee costs			
Administrative expenses	11	(42,762)	(39,970)
Contributions in cash to resolution committees	10	(8)	(2,879)
Depreciation	12	(4,066)	(4,451)
Operating expenses		**(46,836)**	**(47,300)**
Profit before impairment and other provisions		**13,491**	**10,802**
Provisions or cancellation of provisions		260	1,768
Impairment or impairment reversal of financial assets not measured at fair value through profit or loss		(8,653)	(10,281)
Impairment or impairment reversal of investments in subsidiaries and associates	20	0	0
Other impairment losses and provisions		0	0
Impairment and provisions expenses	13	**(8,393)**	**(8,513)**
Profit before tax		5,098	2,289
Profit tax	14	(1,362)	(933)
Profit for the year		**3,736**	**1,356**

SLATINSKA BANKA d.d., Slatina
STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2021

P O S I T I O N	**Note**	**2021**	**2020**
		HRK '000	HRK '000
Profit for the year		**3,736**	**1,356**
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		1,805	(950)
Items that can be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income		(413)	1,034
Other comprehensive income		**1,392**	**84**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**5,128**	**1,440**

The accompanying notes form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina
STATEMENT OF FINANCIAL POSITION/BALANCE SHEET as at 31 December 2021

P O S I T I O N	**Note**	**2021**	**2020**
		HRK '000	HRK '000
ASSETS			
Cash and cash equivalents	15	336,245	299,756
Financial assets at fair value through profit or loss	16	1,521	1,664
Financial assets at fair value through OCI	17	232,047	267,373
Financial assets at amortized cost	18	0	697
Receivables from the Croatian National Bank	19	69,884	67,364
Loans and receivables from banks	19	6,268	17,061
Loans and advances to customers	19	842,895	805,039
Property, plant and equipment	20	21,936	23,348
Intangible assets	21	14,575	10,106
Deferred and current tax assets	22	1,464	1,599
Other assets	23	8,285	7,575
Total assets		**1,535,120**	**1,501,582**
LIABILITIES AND EQUITY			
LIABILITIES			
Current accounts and deposits of customers and banks	24	1,249,464	1,209,505
Liabilities for received loans	24	91,169	99,316
Lease liabilities - IFRS 16	25	1,729	2,325
Provisions for liabilities and expenses	26	4,505	4,765
Current tax liability	27	474	202
Other liabilities	28	15,470	18,286
Total liabilities		**1,362,811**	**1,334,399**
EQUITY	29		
Share capital		91,897	91,897
Share premium		149	149
Fair value reserves		844	(548)
Other reserves		15,182	15,183
Reserves on own shares		(6,592)	(6,592)
Retained earnings		70,829	67,094
Total equity		**172,309**	**167,183**
Total liabilities and equity		**1,535,120**	**1,501,582**

The accompanying notes form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina
STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2021

	Share capital	Own shares	Accumulated other comprehensive income (loss)	Capital gain	Reserves			Retained earnings	Profit/loss for the year	Total
					Legal reserves	Reserves for own shares	Other reserves			
	HRK '000	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	***HRK '000***
Balance at 1 January 2020	**91,897**	**(6,592)**	**(706)**	**149**	**4,729**	**7,425**	**3,028**	**63,422**	**2,269**	**165,620**
Allocation of profit 2019	0	0	(47)	0	0	0	0	2,316	(2,269)	**0**
Other increase or decrease in equity instruments	0	0	121	0	0	0	0	0	0	**121**
Total comprehensive income for the current year	0	0	84	0	0	0	0	0	0	**84**
Profit for the current period	0	0	0	0	0	0	0	0	1,356	**1,356**
Balance at 31 December 2020	**91,897**	**(6,592)**	**(548)**	**149**	**4,729**	**7,425***	**3,028**	**65,738**	**1,356**	**167,181**
Allocation of profit 2020	0	0	0	0	0	0	0	1,356	(1,356)	**0**
Other increase or decrease in equity instruments	0	0	0	0	0	0	0	0	0	**0**
Total comprehensive income for the current year	0	0	1,392	0	0	0	0	0	0	**1,392**
Profit for the current period	0	0	0	0	0	0	0	0	3,736	**3,736**
Balance at 31 December 2021	**91,897**	**(6,592)**	**844**	**149**	**4,729**	**7,425***	**3,028**	**67,093**	**3,736**	**172,309**

* The difference to nominal value of own shares represents capital gain

The accompanying notes form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina
STATEMENT OF CASH FLOWS for the year ended 31 December 2021
INDIRECT METHOD

POSITION	2021	2020
	HRK '000	HRK '000
Operating activities and adjustments		
Profit before tax	5,098	2,289
Changes in equity	5,127	1,561
Impairment losses and provisions	8,393	8,513
Depreciation	4,066	4,451
Net unrealized (gain) / loss on financial assets and liabilities at fair value through profit or loss	(224)	2,635
Changes in assets and liabilities from operating activities		
Financial assets at fair value through profit or loss	(367)	(136)
Financial assets at fair value through OCI	(35,793)	11,223
Financial assets at amortized cost	(697)	3,288
Receivables from the Croatian National Bank	1,913	21,778
Loans and receivables from banks	(9,789)	(886)
Loans and advances to customers	46,616	36,572
Other assets from operating activities	(706)	2,265
Increase/decrease in operating liabilities		
Current accounts and deposits of customers and banks	39,959	(36,319)
Deferred tax liability	0	0
Other liabilities	(11,241)	1,028
A) Net cash flows from operating activities	**52,355**	**58,262**
Investing activities		
Proceeds from sale / payments for purchase / tangible and intangible assets and leases - IFRS 16	(7,123)	(4,743)
Proceeds from sale / payments for purchase / investment in subsidiaries, joint ventures and associates	0	0
B) Net cash flows from investing activities	**(7,123)**	**(4,743)**
Financing activities		
Liabilities for received loans	(8,147)	43,336
Lease liabilities - IFRS 16	(596)	(693)
C) Net cash flows from financing activities	**(8,743)**	**42,643**
D) Net increase / decrease in cash and cash equivalents	**36,489**	**96,162**
Cash and cash equivalents at the beginning of the year	**299,756**	**203,594**
Cash and cash equivalents at the end of the year	**336,245**	**299,756**

The accompanying notes form an integral part of these financial statements.

I GENERAL INFORMATION

1.1. Legal framework

SLATINSKA BANKA d.d. SLATINA ('' Bank '') is registered with the Commercial Court in Bjelovar under the registration number 010000576, OIB 42252496579. The Bank's registered office is in Slatina, Vladimira Nazora 2.

The bank is registered to perform transactions with foreign means of payment in the country, perform monetary intermediation, receive all types of deposits, give all types of loans, open documentary letters of credit, issue bank guarantees, perform transactions with bills, checks, lending, selling and buying for own account or for the account of its clients, perform securities' transactions for its own account or for the account of other persons, issue and manage means of payment, perform financial leasing and factoring operations, provide information on clients' creditworthiness at their request, perform foreign payment operations and international transactions, payment transactions in the country, provision of representation services in the sale of insurance policies, provision of other financial services, participation in the issuance of financial instruments and provision of services, services of bid execution, i.e. sale of financial instruments without obligation to repurchase, custody of financial instruments and related services, investment and ancillary services and activities.

The share capital of the Bank as at 31 December 2020 amounts to HRK 91,897 thousand and is divided into 918,972 shares, with a nominal value of HRK 100.

1.2. Governance and Management

The governing bodies of the Bank are the Management Board, the Supervisory Board and the Assembly.

Members of the Bank's Management Board are:

1. Andrej Kopilaš, Member of the Management Board (from 20 July 2017 to 10 April 2018); represents the Bank individually and independently by the decision of the Supervisory Board of 16 January 2018; President of the Management Board from 10 April 2018 for a term until 19 July 2024)
2. Marin Prskalo, Member of the Management Board (from 20 July 2017 for the term of office until 19 July 2024)
3. Oliver Klesinger, Member of the Management Board (from 14 November 2019 for the term of office until 19 July 2024)

Members of the Supervisory Board are:

1. Dušan Banović - President of the Supervisory Board (member since 1 July 2018)
2. Srećko Vukić - Member of the Supervisory Board (since 1 July 2018)
3. Domagoj Karačić - Member of the Supervisory Board (since 26 August 2020)

As at 31 December 2021, the Bank had 184 employees (31 December 2020, 179 employees).

II BASIS OF PREPARATION

2.1. Compliance statement and basis of preparation

The annual financial statements have been prepared in accordance with the legal accounting regulations for banks in the Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act (OG 153/09, 19/15, 102/15, 15/18, 70/19, 47/20 and 146/20), according to which the Bank's financial reporting is determined by the Croatian National Bank ("CNB"), which is the central supervisor of the banking system in Croatia. These financial statements have been prepared in accordance with the above banking regulations.

The CNB's accounting regulations are based on International Financial Reporting Standards (IFRS), which include International Accounting Standards (IAS), their amendments and related interpretations, and International Financial Reporting Standards (IFRS), their amendments and related interpretations, which are established by the European Commission and published in the Official Journal of the European Union and which were in force on 31 December 2021.

The main differences in a reclassification between the CNB's accounting regulations and the requirements for recognition and measurement under IFRS are not materially significant, they are accepted as Management estimates, and relate to:

- The CNB requires banks to recognize impairment losses in the Statement of Comprehensive Income at the prescribed minimum rate for exposures measured at amortized cost and for off-balance sheet exposures. In its financial statements, the Bank has recognized these provisions as a substitute for expected losses calculated in accordance with the requirements of IFRS 9 - Financial Instruments;
- The CNB prescribes minimum impairment provisions for individual exposures in default, which may differ from those required by IFRS;
- The CNB prescribes the minimum values of impairment and the minimum time period for collection of individual exposures (foreclosed assets) in the status of default of contractual obligations whose collection is expected from the realization of collateral, which may differ from those required by IFRS.

2.2. Measurement basis

The financial statements have been prepared on a fair value basis: for financial assets and liabilities at fair value through profit or loss, and for financial assets at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized or historical cost.

2.3. Uncertainty of estimates and impact of judgments

In preparing the financial statements, Management has made judgments, estimates and assumptions that affect the application of accounting policies, as well as the reported amounts of the Bank's assets and liabilities, the Bank's income and expenses, and the disclosure of the Bank's contingent liabilities. Future events and their impacts cannot be predicted with certainty; therefore actual results may differ from those estimated. The estimates used in the preparation of the financial statements are subject to change as new events arise, additional experience is gained, additional information and insights are gained and the environment in which the Bank operates changes. Key sources of estimation uncertainty The Bank identifies:
- the effects of the COVID-19 pandemic,
- losses from loans and receivables,
- profit tax and
- provisions for litigation.

II BASIS OF PREPARATION (continued)

Estimates and related assumptions are reviewed regularly, and effects are recognized in the period in which they change if they affect only that period, or in the period in which the change affects future periods.

The key estimates used in the application of accounting policies in preparing the financial statements relate to the calculation of depreciation and amortization of long-term intangible and tangible assets, impairment of assets, impairment of receivables and provisions, and the disclosure of contingent liabilities.

The annual financial statements are presented in the commonly used form and are internationally accepted as the publication of financial statements of banks and similar financial institutions.

2.4. Functional and reporting currency

The functional and reporting currency is the Croatian Kuna, and the financial statements are presented in thousands of Kuna (unless otherwise stated).

III SUMMARY OF ACCOUNTING POLICIES

A summary of significant accounting policies adopted in preparing the financial statements is set out below. Policies have been applied consistently to all periods included in these reports, unless otherwise stated.

3.1. Changes in accounting policies

The following new standards and amended existing standards issued by the International Accounting Standards Board through the International Financial Reporting Interpretations Committee and which are adopted in the European Union and in force in the current period:

First application of new amendments to existing standards in force for the current reporting period

The new amendments to the existing standards in force for the current reporting period did not have a material impact on the Bank's financial statements, and are presented as follows:

- **Amendment to IFRS 16, “Leases” - Covid-19 Lease Concessions,** issued in May 2020. As a result of the coronavirus pandemic (COVID-19), lessees were granted lease concessions. Such concessions can take various forms, including partial write-off and deferral of lease fees. On 28 May 2020, the IASB issued an amendment to IFRS 16 which provides a non-binding practical guide for lessees to assess whether a COVID-19 lease concession constitutes a lease modification. Lessees may choose to calculate such concessions in the same way as they would if it were not a modification of the lease. In many cases, this will result in the accounting of the concession as a variable lease payment in the period(s) in which the event or condition that led to the reduction in the payment occurs.

- **Amendments to IFRS 17 and IFRS 4, “Insurance Contracts”, deferral of IFRS 9,** issued in June 2020. These amendments postpone the date of application of IFRS 17 for 2 years, until 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from the application of IFRS 9 “Financial Instruments” until 1 January 2023.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **Amendments to IFRS 9, IAS 39 and IFRS 7 - Reform of Interest Rate Reference Values,** published in September 2020. These amendments define certain reliefs related to the reform of reference interest rates. The concessions relate to hedge accounting and have the effect that the reform of the IBOR should not, in general, lead to the discontinuation of hedge accounting. However, any ineffectiveness of hedging should continue to be recorded in the income statement. Given the systemic nature of hedges involving IBOR-based contracts, the benefits will affect companies in all industries.

Standards that have been issued but are not yet in force and have not been adopted before

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Reform of Interest Rate Reference Values - Phase 2;** published in August 2020; Phase 2 amendments address issues arising from the implementation of reforms, including the replacement of one benchmark by an alternative

- **Amendments to IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities.** The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. However, in response to the COVID-19 pandemic, the IFRS Committee postponed its application for one year, i.e. on 1 January 2023, in order to give companies more time to implement the classification changes resulting from the amendments. The amendment seeks to encourage consistency in the application of the standard by helping companies determine whether debts and other liabilities with an uncertain settlement date should be classified in the statement of financial position as long-term or short-term liabilities. The amendments affect the presentation of liabilities in the statement of financial position, but do not change the existing requirements for measuring or recognizing assets, liabilities, income or expenses, or the information that the company discloses in the notes related to these positions. In addition to the above, the amendments clarify the requirements for the classification of debts that the company can settle by issuing equity instruments.

  The amendments have not yet been adopted at the European Union level. The Management Board estimated that it will not have a significant effect on the Bank's financial statements.

- **Amendments to IFRS 3 Business Combinations, issued in May 2020.** 'Business combinations' update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Changes in the definition of business are likely to result in more acquisitions being accounted for as acquisitions in all industries, particularly real estate, pharmaceuticals, and oil and gas. The application of the amendments would also affect the accounting of disposal transactions. Differences in accounting between business combinations and the acquisition of assets include, but are not limited to, the recognition of goodwill, the recognition and measurement of contingent consideration, transaction cost accounting and deferred tax accounting.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **Amendments to IAS 16, IAS 17 and some annual improvements to IFRS 1, IFRS 9, IAS 41 and IFRS 16; published in May 2020.** Amendments to IAS 16, "Property, Plant and Equipment, prohibit companies from deducting from the cost of property, plant and equipment amounts received from the sale of items produced during the preparation of those assets for their intended use. Instead, the Company will recognize such sales revenue and related expenses in profit or loss. The amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" specify the costs that a company includes when assessing whether a contract will incur a loss. Annual improvements are minor changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples accompanying IFRS 16 Leases.
The amendments have not yet been adopted at the European Union level.

  The Management Board estimated that the above will not have a significant effect on the bank's financial statements.

- **I Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Interests in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture**
The amendments relate to the correction of the identified inconsistency between the requirements of IFRS 10 and IAS 28 related to the sale or contribution of assets between an investor and its associate or joint venture. As a principal result of the amendment, total profit or loss is recognized when the transaction involves business (whether or not the business relates to a subsidiary). Partial profit or loss is recognized when the transaction involves assets that do not represent the company's operations, even when those assets are located in a subsidiary. In December 2015, the IFRS Board postponed the date of application of these amendments indefinitely, depending on the outcome of the share accounting method research project.

  The amendments have not yet been adopted at the European Union level. The Management Board estimated that the above will not have a significant effect on the bank's financial statements.

- **IFRS 17: Insurance Contracts**
The standard becomes operative for annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have already been adopted. At its meeting in March 2020, the IFRS Committee postponed the application of the standard until 2023. IFRS 17 Insurance Contracts establishes the principles of recognition, measurement, presentation and disclosure of issued insurance contracts. In addition, the standard requires the application of similar principles to reinsurance contracts and issued investment contracts with discretionary participation features. The aim is to ensure that the Companies provide all relevant information in order to present such contracts accurately. Such information provides users of the financial statements with a basis for assessing the impact of insurance contracts, within the scope of IFRS 17, on the Company's financial position, financial performance and cash flows.

  The standard has not yet been adopted at the European Union level. The Management Board estimated that the above will not have an effect on the bank's financial statements.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **IFRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)**
  Amendments to IFRS 17 are effective, retroactively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments are aimed at assisting companies in implementing the standards. They are specifically designed to reduce costs by simplifying certain requirements of the standard, facilitating the explanation of financial results and facilitating the transition by delaying the application of the standard until 2023 and providing additional relief to reduce the effort required in the first application of IFRS 17. Amendments to IFRS 4 change the fixed expiry date of the temporary exemption from IFRS 4 Insurance Contracts for the Application of IFRS 9 Financial Instruments, and companies are required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
  Amendments to IFRS 17 have not yet been adopted at the European Union level. The Management Board estimated that the above will not have an effect on the bank's financial statements.

3.2. Interest income and expenses

Interest income on fully recoverable placements is recognized in the income statement, using the effective interest rate, for all interest-bearing financial instruments. Effective interest rate is the interest rate that discounts estimated future cash outflows or receipts over the expected life of the financial instrument or over a shorter period. The effective interest rate method involves calculating the amortized cost of a financial asset or financial liability and allocating interest over the relevant period, up to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The calculation of the effective interest rate includes any fees paid or received between the parties that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

When calculating the effective interest rate adjusted for the expected credit risk for financial assets, the contractual terms of the financial instrument are taken into account in the calculation of future cash flows, but not the expected credit loss. In calculating interest income and expense, the effective interest rate is calculated on the gross carrying amount of the financial asset or the amortized cost of the liability.

For financial assets purchased or recognized for impairment, the effective interest rate is adjusted for credit risk, and the contractual terms of the financial instrument, including the credit loss, are taken into account in calculating future cash flows. In calculating interest income and expense, the effective interest rate is calculated on the amortized cost of the financial asset or on the amortized cost of the liability. If the asset is subsequently no longer reduced for credit losses on remeasurement, the calculation of income will again be based on the gross carrying amount of the financial asset.

These income and expenses are recognized in the income statement as interest income or interest expense. Interest income and expense also include income and expenses from fees and commissions related to loans and receivables from customers and banks, borrowings, finance leases, and debt securities issued, amortization of premiums or discounts, as well as other fees between the initial carrying value of the interest-bearing financial instrument and its value at maturity, which are recognized using the effective interest rate method.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Interest income on debt securities at fair value through profit or loss is recognized at the nominal interest rate and is included in interest income. If the loan is value-adjusted due to the expected credit loss, i.e. in the amount of its estimated recoverable amount, interest income is recognized based on the interest rate used to discount future cash flows to measure the recoverable amount.

Interest income on partially recoverable and non-recoverable placements (Stage 3) is recognized in the income statement when and if they are collected.

3.3. Fee and commission income and expenses

Fee and commission income comprises the Bank's fees for guarantees and other services provided, fees for managing funds on behalf and for the account of legal entities and individuals, guarantee operations, asset management and commissions for domestic and international payments.

Fee and commission income is recorded on the principle of invoiced realization after performing the banking service in the period when they were earned, i.e. according to the principle of the event, or during the performance of the service, except for cases when they are included in calculation of the effective interest rate.

3.4. Net gains and losses on financial instruments at fair value through profit or loss and the result of the currency trade and exchange differences arising on the translation of monetary assets and liabilities

This category includes earnings from the purchase and sale of currencies, realized and unrealized gains and losses on debt and equity securities held for trading, other financial instruments measured at fair value through profit or loss, as well as net gains or losses on exchange differences arising on translation of monetary assets and liabilities denominated in foreign currencies.

Within this category are the effects of the realization or sale of financial instruments that are measured at fair value through other comprehensive income, whereby the effects recognized in other comprehensive income are recognized in the income statement.

3.5. Employee benefits

The Bank does not manage defined benefit plans after retirement for its employees and managers in Croatia and has no provisions for these costs, as the system in the Republic of Croatia does not allow it.
The Bank has the obligation to pay contributions to pension and health insurance funds in Croatia in accordance with legal regulations. This obligation applies to all persons who are employed under an employment contract. Contributions from and on the salary are paid based on the taxable income using following percentages:

	2021	2020
Pension insurance contribution	20.0%	20.0%
Health insurance contribution	16.5%	16.5%

III SUMMARY OF ACCOUNTING POLICIES (continued)

Accrued contributions and taxes on behalf and for the account of the employee are suspended from his gross salary, while the contribution to salary is calculated and suspended by the Bank in its own name and for its own account. Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred.

Severance pay and jubilee awards

The Bank pays jubilee awards and one-time severance pay to employees upon retirement, and the liability is determined at the present value of estimated future cash outflows by applying a discount rate similar to the interest rate on government bonds in the Republic of Croatia quoted in currencies and maturities in accordance with currencies and the estimated duration of the benefit obligation.

The Bank pays its employees some benefits for long-term employment (jubilee awards) and severance pay upon retirement in the amount of tax-permitted payments.

3.6. Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated into the functional currency at the middle exchange rate of the CNB valid on the balance sheet date.

Monetary assets and liabilities denominated in foreign currencies are translated into HRK at the balance sheet date at the exchange rate ruling at that date. Foreign exchange differences arising from the translation of foreign currencies are recognized in the income statement.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are stated at cost are translated using the exchange rates at the dates of the transactions. Gains and losses arising from the translation of foreign currencies and the purchase and sale of foreign currency are shown in the income statement for the year.

3.7. Taxation

Profit tax represents the sum of the current tax liability and deferred tax.

Current taxes

Current tax liability is based on taxable profit for the year. Taxable profit differs from the net profit for the period presented in the income statement for amounts not included in the tax base as well as for amounts of non-tax-deductible expenses. The Bank's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Management periodically assesses tax return positions in relation to situations in which applicable tax laws are subject to interpretation, and the Bank makes provisions, when possible.

Deferred tax

Deferred tax is provided using the liability method, providing for tax effects on all time differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

3.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, and current accounts with banks and cash receivables from central banks.

3.9. Financial assets

Financial assets are assets that are:

(a) money;
(b) the contractual right to receive money or other financial assets of another entity;
(c) the contractual right to exchange financial instruments with other entities on terms that are potentially more favourable;
(d) equity instruments of another entity.

Classification of financial assets

The Bank's financial assets in accordance with IFRS 9 are divided into basic categories:
(a) Financial assets measured at amortized cost
(b) Financial assets measured at fair value through other comprehensive income
(c) Financial assets measured at fair value through profit or loss

There is a fundamental difference between the mentioned categories in the way of measuring financial assets in the financial statements. All ordinary transactions in financial instruments are recognized in the balance sheet at the trade date or the settlement date. Under the settlement date method, in which the underlying assets or liabilities are not recognized until the settlement date, changes in the fair value of the underlying assets and liabilities are recognized in the balance sheet starting from the trade date. Upon initial recognition, the Bank measures financial assets or financial liabilities at their fair value plus, in the case of financial assets, transaction costs that are directly attributable to the acquisition or delivery of the financial asset or financial liability.

a) **Financial assets measured at amortized cost -** this portfolio includes financial assets and financial liabilities measured at amortized cost in accordance with IFRS 9 - Financial Instruments (paragraphs 4.1.2 and 4.2.1).

III SUMMARY OF ACCOUNTING POLICIES (continued)

Financial assets are measured at amortized cost if both of the following conditions are met:
- Financial assets are held within a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows, i.e. a business model for the purpose of collection
- Based on the contractual terms of financial assets, cash flows arise on certain dates that are only the payment of principal and interest on the outstanding principal amount.

Financial assets measured at amortized cost are primarily loans, deposits and receivables originated by the Bank and are financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank has created by placing money, goods or services directly to the debtor.

Purchased debt securities that the Bank has the intent and ability to hold to maturity are also classified in this category.

b) Financial assets at fair value through other comprehensive income - this portfolio includes financial assets at fair value through other comprehensive income in accordance with IFRS 9 - Financial Instruments (clause 4.1.2.A).

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:
- Financial assets are held within the business model whose goal is achieved by collecting contractual cash flows and selling financial assets or business model for collection and sale
- Based on the contractual terms of financial assets, cash flows arise on certain dates that are only the payment of principal and interest on the outstanding principal amount.

This category includes purchased debt securities that the Bank intends to hold for earnings in the form of interest or dividends, but may, if the conditions are met, sell them.

The Bank may irrevocably decide that subsequent changes in the fair value of equity investments are measured at fair value through other comprehensive income.

c) Financial assets that must be measured at fair value through profit or loss - this portfolio includes financial assets that do not meet the condition that the related cash flows are only the payment of principal and interest on the outstanding principal amount and, consequently, are measured at fair value through profit or loss in accordance with IFRS 9 - Financial Instruments (paragraph 4.1.4).

Financial assets are measured at fair value through profit or loss, if they are not measured at amortized cost or at fair value through other comprehensive income. Purchased debt and equity securities that the Bank intends to trade, as well as all derivative financial instruments (derivatives) are classified in this category.

<u>Recognition and measurement of financial assets</u>

The Bank has identified criteria for classifying financial instruments into new categories provided by the standard, based on the business model and characteristics of related contractual cash flows, and has applied the criteria identified in the classification of existing portfolios (corporate and retail clients). During this process, the analysis of the business model is conducted by mapping the business areas to which certain business models are assigned.

III SUMMARY OF ACCOUNTING POLICIES (continued)

The “held for collection” and “held for collection and sale” models are assigned to the business areas related to the banking part of the Bank's portfolio, while the “other” business model is assigned to the Bank's trading portfolio, which reflects the intention to trade. For the purpose of classifying financial assets in IFRS Category 9, the analysis of the business model is supplemented by the analysis of contractual cash flows (“SPPI test”).

The Bank has developed processes to analyse the portfolio of securities and loans to assess whether the characteristics of contractual cash flows allow measurement at amortized cost (portfolio „held for collection“) or at fair value through other comprehensive income (portfolio „held for collection and sale”). This analysis was conducted at the level of individual contracts or at the level of exposure groups where possible. Equity instruments will be measured at fair value through profit or loss or other comprehensive income, depending on their characteristics and intent to acquire.

The expected credit loss (ECL) calculation model on an aggregate basis is calculated using the following formula:

$$ECL=\sum_{t=1}^{t} EADt * MPDt * LDGt * DFt$$

For exposure in risk group A-1, a loss is calculated in the twelve-month period, while for risk group A-2, a credit loss is calculated over the entire duration of the exposure.

For risk groups B and C (phase 3), the credit loss is determined by discounting the estimated cash flows by exposure or by discounting the value of collateral.

Exposure is divided into the following homogeneous groups:

- Economy (companies, craftsmen and other natural persons performing a registered activity),
- Natural persons,
- Financial institutions, and
- Central government and local self-government.

MPD is an abbreviation of the term Marginal Probability of Default. It represents the marginal probability of default status for a given financial asset for a given period (t). The assessment of the MPD for the life of the asset should take into account all relevant factors that affect this probability, i.e. in addition to the inclusion of historical data, it is necessary to include macroeconomic forecasts.

In the MPD model, the basic approach of calculating the probability of default occurrence based on transition matrices using Markov chains was applied, after which macroeconomic forecasts are implemented using the z-shift model. The time dimension is obtained by simply multiplying adequate matrices based on projections for future periods. The Bank takes a period of 5 years and determines the priority each year by giving the most recent the highest priority of 50%, then the year before it the priority of 20%, and the other three oldest years 10% priority.

When creating transition matrices, one looks at the end of one period (mostly the previous year) in relation to the end of the current, or observation period.

III SUMMARY OF ACCOUNTING POLICIES (continued)

The following macroeconomic indicators are used in the calculation
- Gross domestic product
- Unemployment rate
- Inflation rate

Determining LGD - (Loss given default) is the estimated percentage of losses for a particular financial instrument.

The Bank has defined the estimated percentage of loss of a specific financial instrument depending on the segment and the existence of collateral on receivables as follows:

1. Economy - 50%
2. Natural persons:
   a) financial instrument secured by collateral - 40%
   b) financial instrument without collateral - 80%
3. Financial institutions - 45%
4. Central government and local self-government - 45%

<u>Derecognition and subsequent measurement of financial assets</u>

Financial assets are initially stated at cost, including transaction costs. Acquisition cost represents the fair value of assets given for a financial asset or received for financial liability.
Subsequent to initial recognition, all financial assets at fair value through other comprehensive income and which are measured at fair value through profit or loss are stated at fair value at the balance sheet date.

Financial assets measured at amortized cost are stated at amortized cost less impairment losses. Depreciation expense is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the instrument and are amortized based on the effective interest rate of the instrument. The fair value of financial assets is based on the daily market price, net of transaction costs.

If the discounted cash flow method is used, the estimated future cash receipts are based on management's best estimate, and the discount rate is the market rate valid at the balance sheet date for an instrument with similar characteristics and conditions.

The fair value of derivatives that are not traded in a regulated market is estimated based on the amount of receipts or expenses that the Bank would have had if the contract had been terminated at the balance sheet date, taking into account current market conditions and counterparty credit risk. Gains or losses on financial assets classified at fair value are recognized in the income statement.

Gains or losses on financial assets at fair value through other comprehensive income are recognized directly in equity, except for impairment losses and foreign exchange differences, until the instrument is derecognised, when the cumulative gain or loss previously recognized in equity, are recognized in the income statement.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Impairment loss on financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated.
The recoverable amount of a financial asset measured at amortized cost is calculated as the present value of expected future cash flows, discounted at the instrument's original effective interest rate. If future cash flows are expected within one year from the balance sheet date, the cash flows need not be discounted.

The recoverable amount of the Bank's investment in securities measured at amortized cost is calculated as the present value of expected future cash inflows and outflows, discounted at the asset's original effective interest rate, as explained in the impairment policies of financial instruments.

A recognized impairment loss in respect of securities or receivables measured at amortized cost is recognized if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. Revenue cannot exceed the value of the original loss.

Derecognition of financial assets

Financial assets are derecognised when the Bank ceases to have control over the contractual rights to the assets, or when the rights are exercised, matured or transferred.
A financial liability is derecognised if the contractual obligation has been settled, adjusted or expired.

When an asset measured at fair value through other comprehensive income, which must be measured at fair value through profit or loss and held for trading is being sold, it is derecognised and the related trade receivables are recognized on the settlement date of the sold receivable. Assets measured at amortized cost are derecognised on the date that the Bank loses control of them.

Special financial instruments

Investments in debt securities

Debt securities include bills of exchange, bills and bonds with a variable or fixed interest rate and other instruments that recognize the debt, regardless of the issuer. Debt securities are registered at the name or at the bearer and are issued in series (there are a number of securities with the same characteristics).

Debt securities can be classified on acquisition into any of the existing categories of financial assets, depending on the specifics of the debt security and in accordance with the aforementioned classification criteria. Debt securities classified as financial assets at fair value through other comprehensive income, which are measured at fair value through profit or loss and held for trading are adjusted to their estimated or fair value at the balance sheet date. For debt securities for which a quoted price is published in an active market, fair value is determined based on the price valid on the day.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Debt securities measured at amortized cost are stated at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Discounts and premiums, including initial transaction costs, are included in the carrying amount of the instrument and amortized based on the effective interest rate, and are reported as interest income or expense. The principal, discount or premium, as well as the related interest per individual security, are recorded separately in the business books.

Investments in equity securities

Equity securities include shares or stakes in companies. Equity securities give the Bank the right to participate in the company's profits and assets after the rights of creditors and other financial providers have been fulfilled.
Equity securities are classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss.

Equity securities classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss are adjusted to fair value at the balance sheet date. For equity securities listed on an active market, fair value is determined based on the closing price on the same. If equity security is not quoted in an active market it can be measured at fair value if fair value can be measured reliably.

It is considered that fair value can be measured reliably if:

- the change in value within a reasonable series of estimates of the fair value of the instrument is not significant, or
- the certainty of different estimates within a range of estimates can be reasonably estimated and used in estimating fair value.

If a set of reasonable estimates of the fair value of an equity instrument is significant and the certainty of different estimates cannot be reasonably estimated, such an instrument is not measured at fair value but at cost.
The sale of a part of the portfolio of certain equity security is recorded at the carrying amount of the investment. When an investment is sold, the difference between the net investment income and the carrying amount of the investment is recognized as a gain or loss on the sale.

Loans to banks and customers

Loans are short-term and long-term receivables based on:

- approved loans and advances
- payments made under guarantees and other
- used framework loans

If there is a permanent decrease in the value of loans, due to the existence of objective evidence that the claim will not be fully settled, the value adjustment (provision) of placements is made in which potential losses are identified on an individual basis. Depending on the degree of collection and quality of the collateral, Bank's on-balance sheet and off-balance sheet receivables are allocated to the appropriate groups A1, A2, B, and C in accordance with the provisions of the Decision on the classification of placements and off-balance sheet liabilities of credit institutions in accordance with IFRS 9.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Provisions or impairment of placements referred to in the previous paragraph shall be made at the expense of provisions.

If the loan is uncollectible and all legal procedures have been completed and the final amount of the loss is known, the loan is written off. If in the next period the amount of impairment loss decreases due to collection, the amount collected is recognized in the income statement.

Classification and valuation of financial instruments and reconciliation of book value based on valuation category.

Total placements and contingent liabilities classified in 2021 increased from HRK 1,685,237 thousand to HRK 1,685,908 thousand, which consequently increased allowances for Phase 1 and Phase 2 exposures by HRK 2,542 thousand, while Value adjustments for losses on exposures and contingent liabilities in phase 3 decreased by HRK 28,917 thousand due to write-off of non-performing loans.

Exposure and impairment	31 Dec 2021	31 Dec 2020	Change 2021-2020
1. Total impairments for exposures and provisions for contingent liabilities	103,078	134,538	(31,460)
1.1. Exposure impairments and provisions for contingent liabilities PHASE 3	92,454	121,371	(28,917)
1.2. Impairments and provisions PHASE 2	3,004	1,781	1,223
1.3. Impairments and provisions PHASE 1	7,621	11,386	(3,765)
2. Total exposures and contingent liabilities	1,695,908	1,685,237	10,671
3. Relative ratio (%): total impairments and provisions / total exposures and contingent liabilities	6.08	7.98	-1.90

In 2021, the Bank significantly reduced its portfolio of NPLs (non-performing loans), both sectoral and total. The coverage of total placements in Phase 3 on 31 December 2021 is 59.37%, while on 31 December 2020 it was 71.48%. The share of NPLs on loan principal on 31 December 2021 is 12.68%, while on 31 December 2020 it was 14.05%. The share of NPLs by exposures classified as at 31 December 2021 is 9.18%, while at 31 December 2020 it was 10.08%.

3.10. Fair value of financial instruments

The fair value of financial instruments traded in active markets is determined at each reporting date in relation to the quoted market price or the quotation price of the distributor without deduction for transaction costs.

For financial instruments that are not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include the use of a more recent unbiased market transaction; given the current fair values of another instrument that is substantially the same; discounted cash flow analyses or other valuation model.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.11. Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses and are tangible assets if their useful lives are longer than one year. The purchase value includes the purchase price, the cost of spare parts for plant and equipment, borrowing costs for long-term construction projects, and other dependent costs and the estimated value of future dismantling costs if the conditions for recognition are met, while the liability is recorded as a commission.

Property is carried at cost less accumulated depreciation and impairment losses recognized after the date of revaluation, based on periodic appraisals by professional appraisers.

Depreciation is calculated by writing off the cost of assets, other than land and investments in progress, over the estimated useful lives of the assets using the straight-line method at the following rates:

	2021		2020	
DESCRIPTION	**%**	**years**	**%**	**years**
Buildings	2.00 – 2.50	40-50	2.00 – 2.50	40-50
Computer equipment	25	4	25	4
Furniture	20	5	20	5
Personal vehicles	40	2,5	40	2,5
Other equipment	10 - 25	4-10	10 - 25	4-10

Depreciation is calculated by individual assets until their complete write-off. Property, plant and equipment and any significant portion thereof are derecognised upon full write-off or when no future economic benefits are expected from their use.

Gains or losses arising from the disposal or disposition of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognized in profit or loss. Residual (present) value, useful life and depreciation methods are reviewed at the end of each financial year and adjusted, if appropriate.

3.12. Intangible assets

Intangible assets refer to IT programs and investments in third party assets that are initially measured at cost and amortized on a straight-line basis over their estimated useful lives. Separately acquired intangible assets are initially recognized at cost. The cost of an intangible asset acquired in a business combination is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses. Employee costs that arise directly from the training of acquired intangible assets for their intended use will be attributed to separately acquired intangible assets in accordance with IAS 38. The useful lives of intangible assets are assessed as either finite or indefinite.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Intangible assets with a fixed useful life are amortized over their estimated useful lives and are reduced when the conditions exist. The amortization period and the method of amortization of intangible assets with a fixed useful life are reviewed at least at the end of each financial year. For the purpose of compiling these financial statements, the Bank has calculated the amortization of intangible assets at the following rates:

DESCRIPTION	2021		2020	
	%	years	%	years
Leasehold improvements	3.3 - 10	10-30	3.3 - 10	10-30
Software	10 - 25	4-10	10 - 25	4-10
Other intangible assets	20 - 50	2-5	20 - 50	2-5

The cost of amortization of intangible assets with a fixed life is recognized in the income statement as an expense in accordance with the role of intangible assets. Intangible assets with indefinite useful lives are not amortized but are assessed for impairment on an annual basis, either individually or at the cash-generating unit level.

3.13. Foreclosed tangible assets

Foreclosed assets in exchange for outstanding receivables on placements are recorded at the lower of the net book value or the net realizable value based on the estimate.

3.14. Share capital and reserves

Share capital represents the non-distributable capital of the Bank. The profit, after allocation for legal reserves and payment of dividends, is transferred to reserves. Reserves include the Bank's legal reserves, retained earnings and other reserves prescribed by the Articles of Association or the Decision of the Assembly.

3.15. Commitments and contingencies

During its operations, the Bank disclosed contingent and assumed liabilities in off-balance sheet records by issuing guarantees, letters of credit, granting loans that have not been fully used and other contingent liabilities. These financial instruments are presented in the balance sheet at the time when and if the Bank settles the due liability.

Provisions for possible losses on contingent liabilities and commitments are maintained at a level that the Bank's Management Board deems sufficient to absorb possible future losses. Management determines the adequacy of provisions based on insights into individual items, current economic circumstances, risk characteristics of different transaction categories, as well as other relevant factors.

3.16. Cash flow statement

For cash flow reporting purposes, cash and cash equivalents include cash on hand (includes national and foreign banknotes and coins commonly used for payments), cash receivables and liabilities at central banks (including balances of receivables on-demand from central banks), other demand deposits (including on-demand balances in credit institutions).

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.17. Operational segments

Operating segments are accounted for in accordance with internal reporting to the chief operating decision-maker. The main business decision-maker, i.e. the function responsible for allocating resources and evaluating the work of operating segments is the Management Board, which makes strategic decisions.

The Bank has identified four main segments: companies, households, banks/credit institutions and others. Segment information is based on information provided to the Management Board for management purposes. Where possible, balance sheet and comprehensive income statements are presented by segment.

3.18. Legal environment

The Bank is obliged to act in accordance with the Croatian National Bank (CNB) regulation, which sets limits and other restrictions related to minimum capital adequacy, classification of loans and commitments in off-balance-sheet records, as well as provisions to cover credit risk, liquidity risk, interest rate risk and those related to the foreign exchange position.

3.19. Significant estimates and judgements

The preparation of the Bank's financial statements, in accordance with IFRS, requires the Bank's management to make estimates and assumptions that affect the amounts presented in these financial statements and accompanying notes.

Estimates and related assumptions are based on historical experience and various other factors believed to be realistic in the circumstances and the information available at the date of preparation of the financial statements. The result forms the basis for judging the carrying amount of assets and liabilities not easily determined from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which they arise if they affect only that period, or in the period in which they occur and in future periods if they affect current and future periods.

The estimate of provisions for credit losses represents the best estimate of the management of the risk of default and expected credit losses on financial assets for balance sheet items but also for receivables on excluded interest recognized in off-balance-sheet records. On-balance sheet and off-balance sheet exposures are included in the Bank's total exposure to the client. The Bank's placements are mostly secured by collateral, of which the most significant is real estate. The assessment of the value of the real estate is the best assessment of the Management Board, but there is uncertainty in that assessment. Historical transactions, as well as transactions in 2020, confirmed that the realized values of real estate in foreclosures are higher than the Management Board's estimates in line with CNB regulations and recognized in the financial statements.

In particular, the Bank is considering the timing of a significant increase in credit risk. As the Bank's loan portfolio is mostly focused on individuals, credit risk is considered individually for each significant exposure.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Indicators for possible impairment are based on default days, internal credit risk assessments based on historical information, current and forward-looking information, adjusted for macroeconomic indicators and expectations.

The required value adjustment or provision is determined based on the measured expected credit loss calculated as the product of the probability of default, the amount of expected loss due to default and exposure to defaulting customers during the remaining expected life of the financial instrument and discounted by the effective interest rate at balance sheet date.

Expected losses from exposures classified as “level 1” measure the expected loss in the next 12 months, while exposures classified as “level 2” measure the expected loss until the end of the remaining expected life of the financial instrument and are exposures with a significant increase in credit risk. On this basis, the Bank did not have a negative net effect on the value adjustment or increase in provisions at the balance sheet date.

3.20. Events after the reporting date

Events after the statement of financial position / balance sheet date are those favourable and unfavourable events that occurred between the balance sheet date and the date on which the financial statements were authorized to be issued. The Bank adjusts the amounts it has recognized in its financial statements for events after the statement of financial position / balance sheet date that require adjustment.

IV NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Interest income

DESCRIPTION	2021 HRK '000	2020 HRK '000
Companies	16,126	16,376
Natural persons and craftsmen	34,637	36,457
Credit institutions	5	35
Other	1,900	2,391
Total	**52,668**	**55,259**

Depending on the type of financial instrument, interest income is presented as follows:

DESCRIPTION	2021 HRK '000	2020 HRK '000
Non-traded financial assets that are measured at fair value through profit or loss	87	85
Financial assets at fair value through other comprehensive income - debt securities	901	971
Financial assets - debt securities at amortized cost	39	166
Financial assets - loans and advances at amortized cost	51,641	54,037
Total	**52,668**	**55,259**

5. Interest expenses

DESCRIPTION	2021 HRK '000	2020 HRK '000
Companies	95	156
Natural persons and craftsmen	2,809	5,192
Credit institutions	206	164
Other	301	647
Total	**3,411**	**6,159**

Depending on the type of financial instrument, interest expenses are presented as follows:

DESCRIPTION	2021 HRK '000	2020 HRK '000
Financial liabilities at amortized cost	3,302	5,852
Interest expenses on lease liabilities	97	131
Interest expenses on financial assets	12	176
Total	**3,411**	**6,159**

6. Fee and commission income

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Companies (fee income)	3,915	3,271
Retail	6,904	6,586
Other (fee income)	1,795	1,657
Total	**12,614**	**11,514**

7. Fee and commission expenses

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Commission for FINA services	1,808	1,886
Foreign institutions	269	328
Domestic banks and clients	1,764	1,522
Total	**3,841**	**3,736**

8.a Net gains (losses) on derecognition of financial assets and liabilities at fair value through comprehensive income

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Profit from activities in the category of assets measured at fair value through other comprehensive income	160	48
Total	**160**	**48**

8.b Net unrealized (gains)/losses on financial assets and liabilities at fair value through profit or loss are presented as follows:

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Net unrealized loss on financial assets and liabilities at fair value through profit or loss	(224)	(2,635)
Total	**(224)**	**(2,635)**

8.c Net gains and losses on financial assets and financial liabilities held for trading are presented as follows:

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Net exchange differences arising on the purchase and sale of foreign currency	2,006	1,984
Total	**2,006**	**1,984**

8.d Net foreign exchange gains are presented as follows:

DESCRIPTION	2021 HRK '000	2020 HRK '000
Net exchange differences due to the reduction of foreign exchange positions of the balance sheet to the exchange rate	1,234	(6,607)
Net exchange differences due to the reduction of positions with a currency clause to the agreed exchange rate	(1,180)	6,415
Total	**54**	**(192)**

9. Other operating income

DESCRIPTION	2021 HRK '000	2020 HRK '000
Collected court and similar expenses	0	1
Sale of tangible assets	170	501
Deferred income	732	2,035
Other	330	472
Total	**1,232**	**3,009**

10. Other operating expenses

DESCRIPTION	2021 HRK '000	2020 HRK '000
Cost of tangible asset sale	74	843
Other	857	147
Total	**931**	**990**

In 2021, in relation to the annual financial statements as at 31 December 2020, the following items were reclassified from other operating expenses:

DESCRIPTION	2021 HRK '000	2020 HRK '000
Cash contributions to resolution committees and deposit insurance schemes (reported individually)	8	2,879
Non-tax levies (included in Other item under Other administrative expenses)	176	166
Total	**184**	**3,045**

11. Administrative expenses

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Employee costs /i/	27,553	26,460
Compensation to the members of Supervisory Board	271	330
Other administrative expenses /ii/	14,938	13,181
Total	**42,762**	**39,971**

/i/ Employee costs are as follows:

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Net salaries	15,240	14,977
Contributions from and on salaries	7,375	7,350
Tax and surtax	1,796	2,365
Other employee benefits	3,142	1,768
Total	**27,553**	**26,460**

/ii/ Other administrative costs were as follows:

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Cost of material	1,408	1,320
Cost of services	12,209	10,743
Entertainment, advertising and promotion	637	325
Other	684	793
Total	**14,938**	**13,181**

12. Depreciation

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Depreciation of leased assets (Note 20)	922	922
Depreciation of property, plant and equipment (Note 20)	1,879	2,411
Amortisation of intangible assets (Note 21)	1,265	1,117
Total	**4,066**	**4,450**

13. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Value adjustment of financial assets:	**8,653**	**10,281**
- financial assets valued through other comprehensive income (note 17)	(467)	87
- financial assets - debt securities valued at amortized cost / held to maturity (note 18)	1,454	(147)
- financial assets at amortized cost / loans and advances (CNB, credit institutions, clients) and cash	7,709	10,357
- Cash (note 15)	486	261
- Loans and advances (note 19)	7,223	10,096
- Collected receivables- previously written off	(43)	(16)
Impairment of non-financial assets (notes 20, 21, 22 i 23)	***0***	**0**
Provisions or reversal of provisions	**(260)**	**(1,768)**
Provisions for litigation (note 27)	89	(1,444)
Other provisions (note 27)	0	(379)
Provisions for contingent liabilities (note 27)	(349)	55
Total	**8,393**	**8,513**

14. Profit tax

Tax calculation for the given period is as follows:

	2021	2020
DESCRIPTION	**HRK '000**	**HRK '000**
Accounting profit before tax	5,098	2,289
Items increasing tax base	2,803	5,618
Items decreasing tax base	(1,086)	(3,566)
Profit/loss after increase and decrease	**6,815**	**4,341**
Tax loss carried forward	0	0
Tax base	6,815	4,341
Profit tax rate	18%	18%
Profit tax liability	**(1,227)**	**(781)**
Deferred tax cost	(135)	(152)
Tax expense	(1,362)	(933)

Profit tax is calculated in accordance with Croatian regulations. The tax rate on taxable profit is 18% (2020: 18%). As at 31 December 2021, the profit tax liability amounts to HRK 1,227 thousand (as at 31 December 2020, HRK 781 thousand).

Deferred tax assets on the basis of deferred income accrual of fees on loans and securities as at 31 December 2021 amounted to HRK 949 thousand (31 December 2020, HRK 1,125 thousand), and deferred tax assets based on unrealized financial loss assets at fair value through profit or loss as at 31 December 2021 amounts to HRK 515 thousand (31 December 2020, HRK 474 thousand)

V NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and cash equivalents

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Giro account	128,791	164,853
Cash in hand		
- kunas	15,067	17,957
- foreign currencies	5,784	4,047
Money in foreign currency current accounts of foreign banks	3,822	610
Money in foreign currency current accounts of domestic banks	19,093	9,896
Foreign currency current account with the CNB	163,795	103,015
Other deposits with the CNB	36	7
Total	**336,388**	**300,385**
Impairment	(143)	(629)
Total	**336,245**	**299,756**

Value adjustments for financial assets without increase in credit risk after initial recognition (phase 1):

Balance as at January 1, 2020	(368)
Changes in credit risk (net) - Note 13	(261)
Balance as at 31 December 2020	(629)
Changes in credit risk (net) - Note 13	486
Balance as at 31 December 2021	(143)

16. Financial assets at fair value through profit or loss

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Deposit certificates	275	318
Bonds	1,246	1,346
Total	**1,521**	**1,664**

The carrying amount of non-trading financial assets that are obligatorily measured at fair value through profit or loss as at 31 December 2021 amounts to HRK 1,521 thousand (as at 31 December 2020 amounted to HRK 1,664 thousand).

17. Financial assets at fair value through other comprehensive income

	31 Dec 2021	31 Dec 2020
DESCRIPTION	**HRK '000**	**HRK '000**
Equity instruments - Investments in equity securities	2,241	141
Equity instruments - Investments in investment funds	0	3,128
Debt instruments - Bonds of the Republic of Croatia	183,294	209,258
Debt instruments - Foreign government bonds	7,613	7,654
Debt instruments - Treasury bills of the Republic of Croatia	31,183	45,173
Debt instruments - Company bonds	6,911	2,019
Investments in other assets	805	0
Total	**232,047**	**267,373**
Associated provisions for expected credit losses for debt securities (recognized in other comprehensive income)	(134)	(601)

/i/ Equity instruments

The carrying amount of equity instruments whose fair value is measured through other comprehensive income as at 31 December 2021 is HRK 2,241 thousand (as at 31 December 2020 it was HRK 3,269 thousand).

In 2021, the exchange of shares in the investment fund in the amount of HRK 1.6 million for shares of Hrvatska poštanska banka in the amount of HRK 2.1 million was caused by strategic business decisions. In 2021, the realized gain on equity securities of financial assets at fair value through other comprehensive income amounts to HRK 1,805 thousand and is stated in other comprehensive income until the decision on the transfer of loss to retained earnings is made.

The value of the funds is determined on the basis of the NAV (semi-annual for an open-ended alternative venture capital investment fund with a private offering). The share in the fund and the share in the company are not listed on the stock exchange.

/ii/ Debt instruments

Debt securities as at 31 December 2021 amounted to HRK 229,001 thousand (as at 31 December 2020 they amounted to HRK 264,104 thousand). They consist of bonds of the Republic of Croatia, bonds of EU countries, treasury bills of the Ministry of Finance of the Republic of Croatia and bonds of companies. Bonds are listed on the stock exchange and treasury bills are not listed. Value adjustments for financial assets without increase in credit risk after initial recognition (phase 1):

Balance as at January 1, 2020	(514)
Changes in credit risk (net) - Note 13	(87)
Balance as at 31 December 2020	(601)
Changes in credit risk (net) - Note 13	(467)
Balance as at 31 December 2021	(134)

18. Debt securities valued at amortized cost

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Company bills of exchange	0	2,151
Value adjustment	0	(1,454)
Total	**0**	**697**

Debt securities in the portfolio of financial assets measured at amortized cost include bills of exchange of companies that are not quoted in active markets and are intended to be held to maturity.

Changes in value adjustments for financial assets at amortized cost - debt securities are shown as follows:

DESCRIPTION	2021 HRK '000	2020 HRK '000
Balance at 1 January	(1,454)	(1,601)
Net value adjustment - Phase 1	5	15
Net value adjustment - Phase 2	0	0
Net value adjustment - Phase 3	1,449	132
Balance at 31 December	**0**	**(1,454)**

Changes in value adjustments for financial assets at amortized cost - debt securities by phases are shown as follows:

Value adjustment	Phase 1	Phase 2	Phase 3	Total
Balance at 1 January 2020	(20)	0	(1,581)	(1,601)
Net changes in credit risk – note 13	15	0	132	147
Balance at 31 December 2020	(5)	(0)	(1,449)	(1,454)
Net changes in credit risk – note 13	5	0	1,449	1,454
Balance at 31 December 2021	0	0	0	0

19. Financial assets at amortized cost (receivables from the Croatian National Bank, loans and receivables from banks and loans and advances to customers)

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Receivables from Croatian National Bank /i/	69,884	67,364
Placements with credit institutions /ii/	6,268	17,061
Loans and advances to clients /iii/	842,895	805,039
Total	**919,047**	**889,464**

/i/ Receivables from Croatian National Bank are as follows:

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Reserve requirement	69,914	67,519
Other receivables	2	0
Value adjustment	(32)	(155)
Total	**69,884**	**67,364**

The obligation to allocate required reserves is prescribed by the CNB. It is allocated in the form of deposits with the CNB and maintained through the balances of other liquid receivables. The reserve requirement rate as at 31 December 2021 was 9% (2020: 9%) of short-term and long-term deposits and borrowings.

As at 31 December 2021, the percentage of allocation of the kuna part of the reserve requirement with the CNB was 70% (2020: 70%), while the remaining 30% (2020: 30%) is maintained in the form of other liquid receivables. This also includes the foreign currency portion (75%) of the reserve requirement, which needs to be kept in HRK (2020: 75%) and forms an integral part of the reserve requirement in HRK.

During 2021, 100% of the foreign currency portion of the reserve requirement is held in the form of other liquid receivables (2020: 100%).

The reserve requirement is not interest-bearing in 2021 (it was not interest-bearing in 2020 either).

19. Financial assets at amortized cost (receivables from the Croatian National Bank, loans and receivables from banks and loans and advances to customers, continued)

/ii/ Placements with credit institutions were as follows

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Short-term deposits with domestic banks	913	916
Short-term deposits with foreign banks	5,315	6,139
Short-term loans to domestic banks	0	10,001
Short-term receivables in settlement	0	0
Receivables based on card business	41	45
Other	36	35
Total	6,305	17,136
Value adjustment	(37)	(75)
Total	6,268	17,061

/iii/ Loans and advances to clients are as follows

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Companies	345,111	327,460
Natural persons and craftsmen	571,228	575,929
Other	28,290	31,923
Impairment of loans	(101,734)	(130,273)
Total	842,895	805,039

19. Financial assets at amortized cost (receivables from the Croatian National Bank, loans and receivables from banks and loans and advances to customers, continued)

Risk concentration by economic sector in the customer loan portfolio is shown as follows:

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Manufacturing	80,448	76,539
Trade	37,923	67,508
Tourism	34,191	34,826
Agriculture	35,561	42,739
Construction	36,568	24,601
Services	142,479	81,247
Retail	571,228	575,929
Other	6,231	31,923
Total	**944,629**	**935,312**
Impairment and provision for losses on loans	(101,733)	(130,273)
Total	**842,895**	**805,039**

- *Financial assets at amortised cost – loans and advances in phases – 31 December 2021*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Central bank	69,916	0	0	69,916
Credit institutions	6,270	0	35	6,305
Trading companies	234,058	39,289	71,765	345,111
Retail	483,139	5,367	82,722	571,228
Other	26,963	440	887	28,290
Total	**820,345**	**45,095**	**155,409**	**1,020,849**

Impairment	Phase 1	Phase 2	Phase 3	Total
Central bank	(31)	0	0	(31)
Credit institutions	(2)	0	(36)	(37)
Trading companies	(1,114)	(1,398)	(33,071)	(35,583)
Retail	(5,191)	(1,590)	(58,798)	(65,580)
Other	(42)	(5)	(524)	(571)
Total	**(6,380)**	**(2,993)**	**(92,429)**	**(101,802)**

19. Financial assets at amortized cost (receivables from the Croatian National Bank, loans and receivables from banks and loans and advances to customers, continued)

- *Financial assets at amortised cost – loans and advances in phases – 31 December 2020*

Gross carrying amount	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Central bank	67,519	0	0	67,519
Credit institutions	17,068	33	36	17,136
Trading companies	229,896	8,721	88,843	327,460
Retail	492,577	5,302	78,050	575,929
Other	30,936	56	930	31,923
Total	**837,996**	**14,112**	**167,859**	**1,019,967**

Impairment	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Central bank	(155)	0	0	(155)
Credit institutions	(39)	0	(36)	(75)
Trading companies	(1,823)	(369)	(56,969)	(59,161)
Retail	(6,753)	(1,395)	(62,409)	(70,557)
Other	(115)	0	(440)	(555)
Total	**(8,885)**	**(1,764)**	**(119,854)**	**(130,503)**

Changes in impairment of financial assets at amortized cost - loans and advances are shown as follows:

Impairment	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Balance as at January 1, 2020	**(8,244)**	**(1,440)**	**(134,736)**	**(144,420)**
Changes in credit risk (net) - Note 13	(640)	(324)	(9,132)	(10,096)
Deferred income transfer	0	0	0	0
Exchange rate differences	0	0	(367)	(367)
Write-offs	0	0	24,381	24,381
Balance as at 31 December 2020	**(8,885)**	**(1,765)**	**(119,854)**	**(130,503)**
Changes in credit risk (net) - Note 13	2,505	(1,228)	(8,500)	(7,223)
Deferred income transfer	0	0	0	0
Exchange rate differences	0	0	(27)	(27)
Write-offs	0	0	35,952	35,952
Balance as at 31 December 2021	**(6,380)**	**(2,993)**	**(92,429)**	**(101,802)**

19. Financial assets at amortized cost (receivables from the Croatian National Bank, loans and receivables from banks and loans and advances to customers, continued)

Changes in impairments and provisions for possible losses on loans are as follows:

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Balance 1 January	(130,503)	(144,420)
Net value adjustment - Phase 1	2,505	(640)
Net value adjustment - Phase 2	(1,228)	(324)
Net value adjustment - Phase 3	27,424	14,881
Balance 31 December	**(101,802)**	**(130,503)**

20. Property, plant and equipment

Description	Land	Buildings	Leased buildings – IFRS 16	Equipment	Furniture and transport assets	Leased furniture and transport assets	Tangible assets under construction	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value								
Balance at 1 January 2020	935	35,190	3,318	17,454	7,229	884	412	65,422
Effects of the application of IFRS 16 on 1 January 2019	0	0	0	0	0	0	0	0
Transfer of assets in use from intangible assets	0	0	0	0	0	0	0	0
Direct increases	0	0		0	0		1,437	1,437
Transfer from assets under construction	0	0	0	1,076	58	0	(1,134)	0
Expenditure and sales	(7)	(301)	0	(362)	(722)	0	0	(1,392)
Balance at 31 December 2020	928	34,889	3,318	18,168	6,565	884	715	65,467
Direct increases	0	0	171	0	0	0	1,287	1,458
Transfer from assets under construction	0	0	0	798	195	0	(993)	0
Expenditure and sales	(5)	(190)	0	(1,868)	(377)	0	0	(2,440)
Balance at 31 December 2021	**923**	**34,699**	**3,489**	**17,098**	**6,383**	**884**	**1,009**	**64,485**
Value adjustment								
Balance at 1 January 2020	**0**	**16,935**	**700**	**15,108**	**6,690**	**300**	**0**	**40,033**
Depreciation for 2020	0	788	699	1,392	230	223	0	3,332
Transfer from intangible assets	0	0	0	0	0	0	0	0
Expenditure and sales	0	(170)	0	(354)	(722)	0	0	(1,246)
Balance at 31 December 2020	0	17,553	1,399	16,446	6,198	523	0	42,119
Depreciation for 2021	0	777	699	841	260	223	0	2,800
Expenditure and sales	0	(126)	0	(1,868)	(376)	0	0	(2,370)
Balance at 31 December 2021	**0**	**18,204**	**2,098**	**15,419**	**6,082**	**746**	**0**	**42,549**
Net carrying value								
Balance at 1 January 2020	**935**	**18,255**	**2,618**	**2,346**	**539**	**584**	**412**	**25,389**
Balance at 31 December 2020	**928**	**17,336**	**1,919**	**1,722**	**367**	**361**	**715**	**23,348**
Balance at 31 December 2021	**923**	**16,495**	**1,391**	**1,679**	**301**	**138**	**1,009**	**21,936**

As at 31 December 2021, the Bank had no pledged assets with other legal entities. Leased property, plant and equipment also include leased property in accordance with IFRS 16.

21. Intangible assets

DESCRIPTION	Software	Leasehold investment	Intangible assets under construction	Total intangible assets
	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value				
Balance at 1 January 2020	**18,227**	**1,586**	**2,335**	**22,148**
Direct increases	0	0	3,451	3,451
Transfer from assets under construction	0	0	(853)	(853)
Transfer of assets in use to tangible assets	853	0	0	853
Balance at 31 December 2020	**19,080**	**1,586**	**4,933**	**25,599**
Direct increases	0	0	5,734	5,734
Transfer from assets under construction	4,082	0	(4,082)	0
Balance at 31 December 2020	**23,162**	**1,586**	**6,585**	**31,333**
Value adjustment				
Balance at 1 January 2020	**12,962**	**1,414**	**0**	**14,376**
Amortisation for 2020	1,073	44	0	1,117
Balance at 31 December 2020	**14,035**	**1,458**	**0**	**15,493**
Depreciation for 2021	1,221	44	0	1,265
Amortisation at 31 December 2021	**15,256**	**1,502**	**0**	**16,758**
Net carrying value				
Balance at 1 January 2020	**5,264**	**172**	**2,335**	**7,772**
Balance at 31 December 2020	**5,044**	**128**	**4,933**	**10,106**
Balance at 31 December 2021	**7,905**	**84**	**6,585**	**14,575**

Increases in intangible assets in 2021 include HRK 440 thousand of employee costs arising directly from the training of acquired intangible assets for their intended use (relating to a net salary of HRK 271 thousand, contributions from salary of HRK 76 thousand, taxes of HRK 31 thousand and contributions on salary of HRK 62 thousand).

22. Deferred and current tax assets

DESCRIPTION	31 Dec 2021	31 Dec 2020
	HRK '000	HRK '000
Deferred tax assets		
Deferred tax assets based on fees and other	1,464	1,599
Total	**1,464**	**1,599**

As at 31 December 2021, deferred tax assets based on fees and other future income amounted to HRK 1,464 thousand (2020: HRK 1,599 thousand).

23. Other assets

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Paid advances and deferred income	838	717
Foreclosed assets /i/	7,337	6,734
Other	110	124
Total	**8,285**	**7,575**

/i/ Foreclosed assets are presented as follows

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Land	1,401	1,660
Buildings	5,936	5,074
Total	**7,337**	**6,734**

Changes on foreclosed assets are as follows:

DESCRIPTION	31 Dec 2021 HRK '000	2020 HRK '000
Balance 1 January	**6,734**	**10,876**
Increase		
- Property Tax and other	(14)	0
- new assets	1,664	0
Decrease		
- sale	(1,050)	(4,142)
- impairment – note 13	3	0
Balance 31 December	**7,337**	**6,734**

24. Current accounts and deposits of customers and banks and liabilities on loans received

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Demand deposits /i/	777,877	590,161
Fixed-term deposits /ii/	471,587	619,344
Liabilities for loans received	91,169	99,316
Total	**1,340,633**	**1,308,821**

24. Current accounts and deposits of customers and banks and liabilities on loans received (continued)

/i/ Demand deposits are as follows:

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Demand deposits - retail		
- Kuna	242,925	194,194
- foreign currency	285,212	249,625
Total retail	***528,137***	**443,819**
Demand deposits - companies		
- Kuna	119,118	84,956
- foreign currency	67,941	7,852
Total companies	***187,059***	**92,808**
Demand deposits – financial institutions		
- Kuna	26	204
- foreign currency	0	434
Total financial institutions	***26***	***638***
Demand deposits – state and other institutions		
- Kuna	52,830	43,094
- foreign currency	129	71
Total state and other institutions	***52,959***	***43,165***
Limited deposits		
- Kuna	2,001	1,486
- foreign currency	0	609
Total limited deposits	***2,001***	***2,095***
Demand deposits – foreign persons		
- Kuna	223	30
Deposits of foreign companies	0	1
Retail deposits	223	29
- foreign currency	7,472	7,606
Deposits of foreign companies	1797	524
Retail deposits	5,675	7,082
Total foreign persons	***7,695***	***7,636***
Grand total	**777,877**	**590,161**

24. Current accounts and deposits of customers and banks and liabilities on loans received (continued)

/ii/ Fixed term deposits are as follows:

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Demand deposits - retail		
- Kuna	141,221	200,296
- foreign currency	299,819	387,198
Total retail	**441,040**	**587,494**
Demand deposits - companies		
- Kuna	14,816	17,924
- foreign currency	1,564	2,070
Total companies	**16,380**	**19,994**
Deposit financial institutions		
- Kuna	0	0
Total financial institutions	**0**	**0**
Deposit state and other institutions		
- Kuna	2,458	2,336
- foreign currency	150	80
Total state and other institutions	**2,608**	**2,416**
- Kuna		
Deposits of foreign credit institutions	4,285	4,281
Deposits of foreign companies	60	40
- foreign currency		
Retail deposits	7,116	5,020
Deposits of foreign companies	98	98
Total foreign persons	**11,559**	**9,439**
Grand total	**471,587**	**619,344**

/iii/ Liabilities for loans received are as follows:

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Liabilities to CBRD /a/	15,899	24,236
Liabilities to CNB /b/	75,270	75,080
Total	**91,169**	**99,316**

/a/ Liabilities to CBRD as at 31 December 2021 amounted to HRK 15,899 thousand (31 December 2020: HRK 24,236 thousand). These sources are intended for granting loans to legal entities and individuals in accordance with CBRD's programs. Depending on the purpose of the loan, interest rates ranged from 0% to 5% (from 0% to 5% in 2020).

/b/ Liabilities to the CNB as at 31 December 2021 amount to HRK 75,270 thousand (31 December 2020: HRK 75,080 thousand) and relate to structural operations of the CNB with an interest rate of 0.25% (in 2020). interest rate 0.25%) and bonds of the Republic of Croatia in the total nominal amount of HRK 85.2 million as collateral.

25. Lease liabilities – IFRS 16

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Lease liabilities	1,729	2,325
Total	**1,729**	**2,325**

26. Provisions for liabilities and expenses

	Legal and tax proceedings in progress and other provisions	Provisions for commitments and guarantees	Total
Balance as at January 1, 2020	**5,238**	**1,295**	**6,533**
Net debit in the income statement - Note 13	(1,823)	55	(1,768)
Balance as at 31 December 2020	3,415	1,350	4,765
Net debit in the income statement - Note 13	89	(349)	260
Balance as at 31 December 201	3,504	1,001	4,505

Provisions for commitments and guarantees and ongoing legal and tax proceedings (litigation) and other provisions based on estimates are recognized within other impairment losses and provisions in the income statement (Note 13).

Provisions for commitments and financial guarantees

Impairment	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Balance at 1 January 2020	1,166	12	117	1,295
Net changes in credit risk – note 13	100	4	(49)	55
Balance at 31 December 2020	1,266	16	68	1,350
Net changes in credit risk – note 13	(301)	(6)	(42)	(349)
Balance at 31 December 2021	965	10	26	1,001

27. Current tax liability

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Current tax liability	474	**202**
Total	**474**	**202**

28. Other liabilities

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Liabilities for loan overpayments	3,977	5,067
Accounts payable	1,566	2,014
Liabilities to employees	2,281	2,910
Liabilities for fees to members of the Supervisory Board	23	23
Deferred interest income and accrued expenses	1,154	1,538
Taxes and contributions from income	0	0
Value added tax liabilities	9	6
Other liabilities	6,460	6,728
Total	**15,470**	**18,286**

29. Capital

As at 31 December 2021, the share capital of the Bank amounts to HRK 91,897 thousand and is divided into 918,972 shares, with a nominal value of HRK 100. The decision of the General Assembly of 29 June 2006 on the abolition of preference shares established that the Bank's share capital of HRK 91,897 thousand was divided into 172,412 dematerialized shares, of which 114,662 ordinary dematerialized Series A shares with a nominal value of HRK 600 each. 57,750 preference dematerialized shares of series B with a nominal value of HRK 400. This Decision abolishes the preference in its entirety, so these shares become ordinary dematerialized shares, with a nominal value of HRK 400 each. By the decision of the General Assembly of 29 June 2006 on the division of shares, one ordinary share of the Bank with a nominal value of HRK 600 is divided into 6 ordinary shares of the Bank with a nominal value of HRK 100, and one previous preferential share of the Bank with a nominal value of HRK 400 is divided into 4 ordinary registered shares of the Bank, with a nominal value of HRK 100. As at 31 December 2021, the ten largest Bank's shareholders (data downloaded from www.skdd.hr) are presented as follows:

Name	31 Dec 2021 Balance	Share	Name	31 Dec 2020 Balance	Share
URBAN CAPITAL INGATIANKEZELO ES TAN. KORLAT. F.T. (1/1)	84,758	9.22	PRIVREDNA BANKA ZAGREB D.D./MKBEGYENSULY NYILTVEGU BEFEKTETESI ALAP – Custodial account	84,758	9.22
OTP BANKA D.D./ MWM1 OTVORENI AIF (1/1)	83,884	9.13	ZAGREBAČKA BANKA D.D./BETA MAGANTOKEALAP- Custodial account	76,100	8.28
SOKAČIĆ DRAGUTIN (1/1)	73,781	8.03	SOKAČIĆ DRAGUTIN	73,781	8.03
SB-S D.D. (1/1)	71,374	7.77	SB-S D.D. (1/1)	71,374	7.77
BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU (1/1)	60,000	6.53	BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU	60,000	6.53
CERP (0/1) / REPUBLIKA HRVATSKA (1/1)	48,018	5.23	MEŠTROVIĆ IVAN	51,036	5.55
PETRINOVIĆ DOMAGOJ (1/1)	38,050	4.14	CERP/REPUBLIKA HRVATSKA	48,094	5.23
MIKULIĆ EMIL (1/1)	36,554	3.98	MIKULIĆ EMIL	36,554	3.98
BERIŠIĆ LJUBICA (1/1)	36,432	3.96	BERIŠIĆ LJUBICA	36,432	3.96
GALIĆ JOSIP (1/1)	29,962	3.26	GALIĆ JOSIP	29,962	3.26
OTHERS	356,159	38.76	OTHERS	350,881	38.18
TOTAL 1.091 SHAREHOLDERS	**918,972**	**100.00**	**TOTAL 1.120 TOTAL**	**918,972**	**100.00**

30. Earnings per share

DESCRIPTION	31 Dec 2021	31 Dec 2020
Profit for the year (in HRK '000)	3,736	1,356
Number of shares	918,972	918,972
Earning per share	**4,07 kn**	**1,48 kn**
Profit for the year (in HRK '000)	3,736	1,356
Number of shares after deduction for ordinary treasury shares	847,598	847,598
Basic and diluted earnings per share (in HRK per share)	**4,41**	**1,60**

31. Contingencies and commitments

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Guarantees	40,826	32,092
Revolving loans	4,478	4,731
Indicative margin loans	0	0
Revolving loans and financing commitments	84,267	83,209
Total	**129,572**	**120,032**
Provisions for contingent liabilities	**(1,001)**	**(1,350)**
Grand total	**128,570**	**118,682**

Contingent liabilities as at 31 December 2021

	Phase 1	Phase 2	Phase 3	Total
Guarantees	40,826	0	0	40,826
Revolving loans	4,422	4	52	4,478
Indicative margin loans	0	0	0	0
Revolving loans and financing commitments	83,566	424	277	84,267
OFF BALANCE SHEET LIABILITIES	**128,814**	**428**	**329**	**129,572**
Total provision for off-balance sheet liabilities	**(965)**	**(10)**	**(26)**	**(1,001)**

Contingent liabilities as at 31 December 2020

	Phase 1	Phase 2	Phase 3	Total
Guarantees	31,957	0	136	32,093
Revolving loans	4,636	2	92	4,730
Indicative margin loans	0	0	0	0
Revolving loans and financing commitments	82,685	257	268	83,210
OFF BALANCE SHEET LIABILITIES	**119,278**	**259**	**496**	**120,033**
Total provision for off-balance sheet liabilities	**(1,266)**	**(16)**	**(68)**	**(1,350)**

32. Managed funds for and on behalf of third parties

Custody services

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Total sources	11,295	11,204
Less: assets	(10,290)	(10,266)
Unspent funds	1,005	938

In 2021, the Bank manage4 funds for and on behalf of third parties. In 2021, these assets were recorded separately from the Bank's assets. Income and expenses on the basis of these funds are recorded in favour or at the expense of appropriate sources. In 2020, the Bank charged a fee for its services, which charged these funds.

Assets under custody

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Assets under custody	0	15,305
Unspent funds	0	30

33. Leases

When IFRS 16 was first applied on 1 January 2019, the Bank recognized right-of-use assets for those leases that do not expire within 12 months of the date of the first application of IFRS 16 and are not low-value or short-term leases.

The Bank applied a simplified modified approach by recognizing right-of-use assets in an amount equal to the lease liability in the amount of HRK 3,922 thousand. When calculating the lease liability for leases that are classified as operating leases, the Bank discounts lease payments at the rate of 5%.

For all leases, except short-term leases and low-value leases, the Bank applies a single approach to recognition and measurement. The Bank recognizes lease payments and the right to use the asset, which is the right-of-use asset in question.

Pursuant to the amendment to IFRS 16, Relief Benefits in the context of the COVID-19 pandemic; the Bank applies the Relief to all leases that are a direct result of the COVID-19 pandemic, for which the rental fee is less than the rental fee immediately before the change, and the reduction in payments affects only fees maturing by 30 June 2021 and there is no significant change in other lease terms. As a result, the revenue of HRK 128 thousand is recognized.

Right-of-use assets

The Bank recognizes right-of-use assets at the time of concluding the lease agreement (i.e. at the time when the assets are available for use). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses and are adjusted for remeasurement of lease liabilities.

33. Leases (continued)

The cost of the right-of-use asset includes the amount of recognized lease liabilities, initial direct costs and lease payments made on or before the conclusion of the contract. Right-of-use assets are depreciated on a straight-line basis over the term of the lease.
The bank leases its branches, business premises and vehicles.

Right-of-use assets are disclosed in Note 21 Property and equipment. Leases are usually concluded for 5-10 years, with the possibility of renewal after expiration. In the case of leases without a defined useful life, the Bank recognizes right-of-use assets based on an assessment of the possible useful life of the assets.
Certain leases provide for changes in payments based on changes in local price indices.
The Bank also has leased certain equipment and business premises that are short-term and/or represent a lease of low-value assets. The Bank does not recognize the right-of-use asset under this type of lease.

The right-of-use assets are shown below and refer to branches, rented business premises and vehicles.

D E S C R I P T I O N	Buildings	Transport	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000
Purchase value			
Effects of the application of IFRS 16 on 1 January 2020	**3,318**	**884**	**4,202**
Prepaid lease payments (transfer of assets in use from intangible assets)	0	0	0
Disposal and sales	0	0	0
Balance at 31 December 2020	**3,318**	**884**	**4,202**
Increases	171	0	171
Disposal and sales	0	0	0
Balance at 31 December 201	**3,489**	**884**	**4,373**
Value adjustment			
Balance at 1 January 2020	**700**	**300**	**1000**
Depreciation for 2020	699	223	922
Transfer of depreciation for advance payments of rent (transfer from intangible assets)	0	0	1,922
Disposal and sales	0	0	0
Balance at 31 December 2020	**1,399**	**523**	**3,844**
Depreciation for 2020	699	223	922
Balance at 31 December 2021	**2,098**	**746**	**2,844**
Net carrying value			
Balance at 31 December 2020	**1,919**	**361**	**3,204**
Balance at 31 December 2021	**1,391**	**138**	**2,281**

33. Leases (continued)

Lease liabilities

When concluding a lease, the Bank recognizes lease liabilities measured at the present value of future payments over the term of the lease. Lease payments include fixed payments, variable payments that depend on an index or rate, and amounts that are expected to be paid on a residual value guarantee basis.

Lease payments may include the value of a purchase option that is expected to be exercised with reasonable certainty and the payment of a penalty for terminating the lease if the terms of the contract provide for a termination option. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that conditions the payment occurs.

	31 Dec 2021	31 Dec 2020
	HRK '000	HRK '000
Maturity analysis - contractual undiscounted cash flows		
Up to one year	1,506	1,433
Between one and two years	215	790
Between two and three years	156	217
Between three and four years	156	156
Between four and five years	156	156
Over five years	271	427
Total	**2,460**	**3,179**
Discounting effect	854	854
Total discounted lease liabilities at 31 December	**1,606**	**2,325**

Following are the expenses associated with operating leases

	2021	2020
	HRK '000	HRK
Depreciation of leased property		
Building	699	699
Transport	223	223
Depreciation of leased property	**922**	**922**
Lease expenses		
Interest expenses on lease liability	122	131
Expenses related to short-term leases	156	182
Costs related to low-value leases, excluding short-term low-value leases	3	39
Exchange rate differences	28	28
Cost of tax on long-term operating lease	215	187
COVID-19 Relief	0	(128)
Lease liability expenses	**439**	**439**

33. Leases (continued)

Total cash flows for leases are as follows:

Cash flow	2021	2020
	HRK '000	HRK '000
Cash payment for part of the lease liability relating to principal	835	715
Cash payment for part of the lease liability relating to interest	122	131
Tax-related payments	216	188
Short-term lease payments, lease payments of low value assets	159	206
Total lease payments	**1,332**	**1,240**

34. Transactions with persons in a special relationship with the Bank and related persons

Persons in a special relationship with a credit institution are:

1) shareholders of the Bank holding 5 or more per cent of the Bank's voting shares in the General Assembly of the credit institution, including funds holding shares in the credit institution,
2) members of the Management and the Supervisory Board and procurators of the Bank,
3) persons responsible for the control function, persons working with legal entities, persons working with retail clients, persons responsible for the operation of the treasury, authorized person for the prevention of money laundering,
4) a legal entity in which the credit institution has a participating share,
5) a legal entity in which a member of the Management Board, a member of the Supervisory Board or a procurator of a credit institution has a qualifying holding,
6) a legal entity in which a member of the Management Board, a member of the Supervisory Board or a procurator of a credit institution are members of senior management or are members of the Management Board, Supervisory Board, Management Board or executive directors.
7) a legal person whose member of the Management Board, Supervisory Board, board of directors or executive director or procurator is at the same time a member of the Management Board or a member of the Supervisory Board or procurator of a credit institution,
8) a legal entity whose member of the Management Board holds 10% or more of the Bank's voting shares in the General Assembly,
9) a member of the Management Board, a member of the Supervisory Board and a procurator of a company that is, directly or indirectly, the parent company of a credit institution or which is a subsidiary of a credit institution,
10) a third party acting on behalf of the person referred to in items 1 to 9 of this paragraph in connection with transactions that would create or increase the Bank's exposure.

Persons with a special relationship with a credit institution are also considered as related persons as defined below: related parties are two or more legal entities or persons and members of their closer family who, unless proven otherwise, have a risk to a credit institution because:

1) one of them has, directly or indirectly, control over the other or others or

34. Transactions with persons in a special relationship with the Bank and related persons (continued)

2) are interrelated so that there is a high probability that the deterioration or improvement of the economic and financial condition of a person will deteriorate or improve the economic and financial condition of one or more other persons, especially if between them exists a possibility of transferring loss, gain, credit ability or if difficulties in the financing sources or a person's obligations may cause difficulties in the financing sources of funding or settlement of the obligations of one or more other persons.

Members of the close family of the related parties are:

1) a spouse or a person, with whom he or she lives in a common household which, according to a special law, has the same status in the marriage community,
2) son, adopted son, daughter or adopted daughter of that person
3) son, adopted son, daughter or adopted daughter of the person mentioned in the point 1 of this paragraph,
4) another person who has no full business capacity and who is placed under the custody of that person.

A credit institution may enter into a legal transaction with a person in a special relationship with the Bank and its related person only if such employment is contracted under terms that are no longer favourable than the normal conditions of the credit institution.

Bank activities with the related parties are conducted in the course of ordinary operations, which include loans and deposits assignation. Mentioned transactions are conducted under commercial conditions and market rates. Total amount of transactions with related parties, closing balances at the end of the year and related income and expense for the year are shown as follows:

	31 Dec 2021	31 Dec 2020
D E S C R I P T I O N	**HRK '000**	**HRK '000**
Loans and advances to customers, securities		
Shareholders holding 5 or more percent of the voting shares	4	2
Management	10	14
Supervisory Board	0	9
Others	9,296	9,058
Total loans and advances to customers	**9,310**	**9,083**
Contingent liabilities		
Shareholders holding 5 or more percent of the voting shares	0	0
Management	23	34
Others	10,371	604
Total contingent liabilities	10,394	638

34. Transactions with persons in a special relationship with the Bank and related persons (continued)

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Demand deposits		
Shareholders holding 5 or more percent of the voting shares	9.589	4.567
Others	537	13.125
Management	988	619
Supervisory Board and related persons	17	24
Total demand deposits	**11.131**	**18.335**
Fixed-term deposits		
Others	121	495
Turbina d.o.o. Slatina	0	0
Management	407	402
Supervisory Board and related persons	0	0
Total fixed-term deposits	**528**	**897**
Other liabilities		
Shareholders holding 5 or more percent of the voting shares	0	0
Others	0	7
Turbina d.o.o. Slatina	0	0
Management	0	0
Supervisory Board and related persons	23	23
Total Other liabilities	**23**	**30**

DESCRIPTION	31 Dec 2021 HRK '000	31 Dec 2020 HRK '000
Income		
Shareholders holding 5 or more percent of the voting shares	55	41
Supervisory Board and related persons	51	74
Management	90	116
Others	313	665
Turbina d.o.o. Slatina	0	0
Total income	**509**	**896**
Expenses		
Shareholders holding 5 or more percent of the voting shares	0	0
Management	4	2
Others	76	113
Turbina d.o.o. Slatina	0	0
Supervisory Board and related persons	271	330
Total expenses	**351**	**445**

Information on transactions with the Republic of Croatia-Ministry of Finance (based on securities (treasury bills and bonds), tax and other receivables and liabilities) is not included.

34. Transactions with persons in a special relationship with the Bank and related persons (continued)

Remuneration of the Management Board is presented as follows:

DESCRIPTION	2021 HRK '000	2020 HRK '000
Net salaries	1,686	1,625
Taxes and contributions	1,017	1,155
Total	**2,703**	**2,780**

35. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. As market prices for most of the Bank's financial assets and liabilities are not available, the fair value of these items is based on Management's estimates by type of assets and liabilities. According to the Management Board, market values do not differ significantly from the carrying amounts of all categories of assets and liabilities.

		31 Dec 2021	
ASSETS	**Level 1**	**Level 2**	**Level 3**
Non-trading financial assets that are measured at fair value through profit or loss	**0**	**0**	**1,521**
Equity instruments	0	0	275
Debt securities	0	0	1,246
Financial assets at fair value through other comprehensive income	**227,990**	**2,100**	**1,957**
Equity instruments	0	2,100	141
Debt securities	227,185	0	1,816
Loans and advances	805	0	0

		31 Dec 2020	
ASSETS	**Level 1**	**Level 2**	**Level 3**
Non-trading financial assets that are measured at fair value through profit or loss	**0**	**0**	**1,664**
Equity instruments	0	0	318
Debt securities	0	0	1,346
Financial assets at fair value through other comprehensive income	**262,085**	**3,128**	**2,160**
Equity instruments	0	3,128	141
Debt securities	262,085	0	2,019

36. Fair value of financial assets and liabilities (continued)

Fair value of financial assets as at 31 December 2021

Financial assets at fair value	Fair value at 31 Dec 2021	Fair value levels	Valuation method and main entry data
Non-trading financial assets that are measured at fair value through profit or loss			
Debt securities Bonds	1,246	Level 3	carrying amount at cost; value assessment
Equity instruments Deposit certificates	275	Level 3	carrying amount at cost; value assessment
Financial assets at fair value through other comprehensive income			
Debt securities			
Bonds of the Republic of Croatia	183,294	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Treasury bills of the Republic of Croatia	31,183	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
EU government bonds	7,613	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Bonds of trading companies	5,095	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Bonds of the company Samoborka d.d.	1,816	Level 3	carrying amount at cost
Equity instruments			
Share in HROK d.o.o.	141	Level 3	carrying amount at cost
Shares of Hrvatska poštanska banka	2,100	Level 2	market price - published share price on the valuation day
Units in an alternative venture capital investment fund with a private offering	805	Level 2	market price - published share price on the valuation day

35. Fair value of financial assets and liabilities (continued)

Fair value of financial assets as at 31 December 2020

Financial assets at fair value	Fair value at 31 Dec 2020	Fair value levels	Valuation method and main entry data
Non-trading financial assets that are measured at fair value through profit or loss			
Debt securities Bonds	1,346	Level 3	carrying amount at cost; value assessment
Equity instruments Deposit certificates	318	Level 3	carrying amount at cost; value assessment
Financial assets at fair value through other comprehensive income			
Debt securities			
Bonds of the Republic of Croatia	209,257	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Treasury bills of the Republic of Croatia	45,173	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
EU government bonds	7,654	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Bonds of the company Samoborka d.d.	2,019	Level 3	carrying amount at cost
Equity instruments			
Share in HROK d.o.o.	141	Level 3	carrying amount at cost
Units in an alternative venture capital investment fund with a private offering	3,128	Level 2	market price - published share price on the valuation day

VI FINANCIAL RISK MANAGEMENT

This Note provides details of Bank's exposure to risks which arise from unpredictability of the financial market as well as briefly described methods which the Management uses for identification, measuring and management of risks. The Bank makes an effort to control the same risks, i.e. to reduce them to lowest possible level. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of interest rate changes, exchange rate changes and price risk (price changes of equity and debt securities).

The risk management system is continually being upgraded at the level of the Bank by introducing new policies and procedures for assessment, measurement, control and management of risks and by determining the limits of risk exposure adjusted to the legal provisions and the Bank's risk profile.

In 2020, the Bank improved its internal control system by prescribing new procedures, dynamics and methodologies, strengthening control functions, rotating branch managers and opening a project to improve operational risk management.

The Bank's Management Board is responsible for recognition and control of risk. There are separate bodies and organizational parts within the Bank's organizational structure responsible for individual risk management and control.

The Bank is exposed to credit risk, which presents the risk of the other party's failure to settle the amounts outstanding in full on maturity. The Bank classifies the credit risk by setting the limits for the amount of the accepted risk expected to occur in relation to one borrower or group of borrowers and in certain branches of business. The Bank regularly monitors these risks and reviews them once a year or more frequently.

The Bank manages credit risk through a regular analysis of the ability of existing and potential borrowers to repay their principal and interest liabilities and change credit limits as needed. In addition, its exposure to credit risk is partially managed by obtaining collateral, corporate and personal guarantees.

The main purpose of the borrowing commitments assumed is to ensure the availability of funds according to the needs of the clients. Guarantees that constitute irrevocable guarantees that the Bank will make a payment in the event that a client cannot meet their obligations to third parties bear the same credit risk as the loans.

In its operations, the Bank is exposed to liquidity risk, which is the risk that it will not be able to successfully meet expected and unexpected current and future cash needs and collateral needs without affecting its regular day-to-day operations or its own financial results.

Part of liquidity risk monitoring and reporting is done through the analysis of maturity matching of assets and liabilities, which includes determining the maturity matching of assets and liabilities observed on a net basis and determining the gap according to certain maturities. Based on the performed analyses and projections of expected outflows, financial liabilities are stated in Note 41.

36. Credit risk

Contingent credit liabilities represent unused approved amounts in the form of credits/loans or guarantees. In connection with credit risk tied to them, the Bank is potentially exposed to losses in the amount equal to total contingent liabilities. However, the probable amount of losses is lower than their total amount because most of them are tied to maintaining specific credit-based standards by the client. The Bank monitors the period to maturity, since these non-current liabilities generally represent a greater credit risk than current ones.

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2021 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placement**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	336,388	143	0	0	336,245
Non-traded financial assets at fair value through profit or loss	1,521	0	0	0	1,521
Financial assets at fair value through other comprehensive income	232,181	134	0	0	232,047
Financial assets-debt securities at amortized cost	0	0	0	0	0
Financial assets-loans and advances at amortized cost	1,020,713	6,380	2,993	92,293	919,047
Receivables from the Croatian National Bank	69,915	31	0	0	69,884
Placements with credit institutions	6,305	2	0	35	6,268
Loans and advances to customers	944,493	6,347	2,993	92,258	842,895
Investment in an affiliated company	0	0	0	0	0
Property, plant and equipment	21,936	0	0	0	21,936
Intangible assets	14,575	0	0	0	14,575
Current tax assets	1,464	0	0	0	1,464
Other assets	8,285	0	0	0	8,285
Total balance sheet exposure	**1,637,063**	**6,657**	**2,993**	**92,293**	**1,535,120**
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	40,826	188	0	0	40,638
Letters of credit	0	0	0	0	0
Credit and other commitments	88,745	777	10	26	87,932
Total off-balance sheet exposure:	129,571	965	10	26	128,570
Total 31 December 2021	**1,766,634**	**7,622**	**3,003**	**92,319**	**1,663,690**

36. Credit risk (continued)

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2020 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placement**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	300,385	629			299,756
Non-traded financial assets at fair value through profit or loss	1,664	0	0	0	1,664
Financial assets at fair value through other comprehensive income	267,974	601	0	0	267,373
Financial assets-debt securities at amortized cost	2,152	5	0	1,450	697
Financial assets-loans and advances at amortized cost	1,019,968	8,885	1,765	119,854	889,464
Receivables from the Croatian National Bank	67,519	155			67,364
Placements with credit institutions	17,136	39		36	17,061
Loans and advances to customers	935,313	8,691	1,765	119,818	805,039
Investment in an affiliated company	0	0	0	0	0
Property, plant and equipment	23,348	0	0	0	23,348
Intangible assets	10,106	0	0	0	10,106
Current tax assets	1,599	0	0	0	1,599
Other assets	7,575	0	0	0	7,575
Total balance sheet exposure	**1,634,771**	**10,120**	**1,765**	**121,304**	**1,501,582**
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	32,092	222	0	14	31,856
Letters of credit	0	0	0	0	0
Credit and other commitments	87,941	1,044	16	54	86,827
Total off-balance sheet exposure:	**120,033**	**1,266**	**16**	**68**	**118,683**
Total 31 December 2020	**1,754,804**	**11,386**	**1,781**	**121,372**	**1,620,265**

- **Received collaterals and reduction of credit risk**

An overview of received collaterals is as follows

36. Credit risk (continued)

	31 Dec 2021
	Gross loans and advances to clients
Gross loans and advances to clients	**944,493**
Secured loans:	
Deposits	52,475
Guarantees	54,616
Residential real estate	84,035
Commercial and other real estate	178,009
Stocks	0
Movables	30,089
Credit insurance	0
TOTAL	**399,224**
Insured share	**42.27%**

	31 Dec 2020
	Gross loans and advances to clients
Gross loans and advances to clients	**935,313**
Secured loans:	
Deposits	23,736
Guarantees	65,377
Residential real estate	79,086
Commercial and other real estate	152,319
Stocks	2,302
Movables	12,789
Credit insurance	674
TOTAL	**336,283**
Insured share	**35.95%**

- **Sale of receivables**

In 2021, the Bank sold HRK 43.2 million in gross receivables (HRK 2,2 million in net receivables) to third parties for HRK 4,1 million, resulting in the release of impairment provisions of HRK 891 thousand

In 2020, the Bank sold HRK 12.9 million of gross receivables (HRK 6 million net receivables) to third parties for HRK 7.4 million, which resulted in the release of impairment provisions of HRK 1.3 million.

36. Credit risk (continued)

- ***Reprogrammed and restructured loans***

Placement restructuring is done with clients where there has been a change in the focus from the point of earning income to reducing the losses stemming from credit exposure at a stage when legal procedures for reducing losses are not yet needed. The aim is to identify clients in a timely manner, where restructuring can enable business continuation and mitigate and prevent further losses.

Overview of restructured loans is as follows:

31 Dec 2021			Phase 1		Phase 3	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances						
Economy	56,074	(18,222)	9,134	(113)	46,940	(18,109)
Retail	17,178	(5,561)	3,858	(38)	13,320	(5,523)
Total	**73,252**	**(23,783)**	**12,992**	**(151)**	**60,260**	**(23,632)**

31 Dec 2020			Phase 1		Phase 3	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances						
Economy	43,557	(16,388)	4,251	(34)	39,306	(16,354)
Retail	18,065	(5,887)	7,356	(125)	10,709	(5,762)
Total	**61,622**	**(22,275)**	**11,607**	**(159)**	**50,015**	**(22,116)**

37. Interest rate risk

The following table shows assets and liabilities of the Bank as per carrying value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2021.

	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	TOTAL
ASSETS							
Cash and cash equivalents	32,181	304,064	0	0	0	0	336,245
Financial assets at fair value through profit or loss	410	0	0	0	0	1,111	1,521
Financial assets at fair value through other comprehensive income	14,015	0	32,619	31,619	75,606	78,188	232,047
Financial assets at amortized cost	0	0	0	0	0	0	0
Receivables from the Croatian National Bank	0	69,884	0	0	0	0	69,884
Loans and receivables from banks	5,355	0	150	763	0	0	6,268
Loans and advances to customers	5,756	275,516	26,345	263,504	145,964	125,810	842,895
Investments in subsidiaries and associates	0	0	0	0	0	0	0
Property, plant and equipment	21,936	0	0	0	0	0	21,936
Intangible assets	14,575	0	0	0	0	0	14,575
Deferred tax assets	1,464	0	0	0	0	0	1,464
Other assets	8,285	0	0	0	0	0	8,285
Total assets	**103,977**	**649,464**	**59,114**	**295,886**	**221,570**	**205,109**	**1,535,120**
LIABILITIES							
Current accounts and deposits of customers and banks	21,290	227,352	92,910	417,835	168,116	321,961	1,249,464
Liabilities on received loans	196	232	2,224	2,712	4,219	81,586	91,169
Lease liabilities - IFRS 16	1,729	0	0	0	0	0	1,729
Provisions for liabilities and charges	4,505						4,505
Tax liability	474	0	0	0	0	0	474
Other liabilities	15,470	0	0	0	0	0	15,470
Total liabilities	**43,664**	**227,584**	**95,134**	**420,547**	**172,335**	**403,547**	**1,362,811**
CAPITAL							
Total capital	**172,309**	**0**	**0**	**0**	**0**	**0**	**172,309**
Total liabilities and capital	**215,973**	**227,584**	**95,134**	**420,547**	**172,335**	**403,547**	**1,535,120**
NET ASSETS / EQUITY AND LIABILITIES	**(111,996)**	**421,880**	**(36,020)**	**(124,661)**	**49,235**	**(198,438)**	**(111,996)**

37. Interest rate risk (continued)

The following table shows assets and liabilities of the Bank as per carrying value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2020.

	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	TOTAL
ASSETS							
Cash	21,375	278,381	0	0	0	0	299,756
Non-trading financial assets at fair value through profit or loss	402	0	0	0	0	1,262	1,664
Financial assets at fair value through other comprehensive income	19,070	0	63	246,476	543	1,221	267,373
Financial assets at amortized cost - debt securities	0	220	477	0	0	0	697
Financial assets at amortized cost - loans and advances	19,258	30,208	28,746	486,759	144,628	179,865	889,464
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	23,348	0	0	0	0	0	23,348
Intangible assets	10,106	0	0	0	0	0	10,106
Tax assets	1,599	0	0	0	0	0	1,599
Other assets	7,575	0	0	0	0	0	7,575
Total assets	**102,733**	**308,809**	**29,286**	**733,235**	**145,171**	**182,348**	**1,501,582**
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	5,203	0	0	584,956	0	0	590,159
Fixed-term deposits	20,627	72,912	83,249	284,858	148,001	9,699	619,346
Liabilities for received loans	52	438	2,585	4,290	7,235	84,716	99,316
Other financial liabilities	1	72	145	670	787	650	2,325
Tax liabilities	202	0	0	0	0	0	202
Provisions	4,765	0	0	0	0	0	4,765
Other liabilities	18,286	0	0	0	0	0	18,286
Total liabilities	**49,136**	**73,422**	**85,979**	**874,774**	**156,023**	**95,065**	**1,334,399**
CAPITAL							
Total capital	167,183	0	0	0	0	0	167,183
Total liabilities and capital	**216,319**	**73,423**	**85,979**	**874,773**	**156,023**	**95,065**	**1,501,582**
NET ASSETS / EQUITY AND LIABILITIES	**(113,586)**	**235,386**	**(56,693)**	**(141,538)**	**(10,852)**	**87,283**	**0**

37. Interest rate risk (continued)

The table below summarizes the current average interest rates for interest-bearing assets and liabilities:

	2021	2020
	%	%
Assets		
Placements with credit institutions	0.04	0.33
Loans and advances to clients	6.05	6.03
Liabilities		
Demand deposits	0	0
Fixed-term deposits	0.53	0.79
Loan liabilities	0.47	0.76

38. Concentration of assets, liabilities and off-balance sheet items

	31 Dec 2021			31 Dec 2020		
DESCRIPTION	**Assets**	**Liabilities**	**Off-balance sheet items**	**Assets**	**Liabilities**	**Off-balance sheet items**
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Geographical region						
Republic of Croatia	1,518,290	1,445,203	124,210	1,485,405	1,312,879	115,701
Europe	16,830	88,739	4,358	16,175	20,478	2,982
Other countries	0	0	0	2	97	0
Other	0	1,178	2	0	168,128	0
Total geographical region	**1,535,120**	**1,535,120**	**128,570**	**1,501,582**	**1,501,582**	**118,683**
Sector						
Republic of Croatia	236,742	42,715	8,518	279,452	55,765	9,344
Croatian National Bank	362,375	0	0	334,624	75,156	0
Trade	93,585	30,702	1,674	38,441	23,612	3,034
Finance	24,423	217,474	349	25,400	1,708	14,237
Tourism	31,890	13,167	507	30,358	4,888	183
Agriculture, fisheries	84,401	43,804	7,636	29,579	12,836	4,447
Industry	86,219	28,568	7,517	111,632	45,478	10,892
Retail (including craftsmen and other independent occupations)	429,128	971,692	50,502	506,653	1,040,548	60,457
Non-residents	16,830	71,629	4,360	16,177	20,575	4,332
Other	169,527	115,369	47,507	129,266	221,016	11,757
Total sectorial analysis	**1,535,120**	**1,535,120**	**128,570**	**1,501,582**	**1,501,582**	**118,683**

39. Currency risk

The Bank's foreign currency assets and liabilities as at 31 December 2021 are presented as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash and cash equivalents	180,557	499	11,353	0	192,409	143,836	336,245
Financial assets at fair value through profit or loss	1,521	0	0	0	1,521	0	1,521
Financial assets at fair value through other comprehensive income	42,997	0	0	63,211	106,208	125,839	232,047
Financial assets at amortized cost (debt securities)	0	0	0	0	0	0	0
Receivables from the Croatian National Bank	0	0	0	0	0	69,884	69,884
Loans and receivables from banks	913	5,313	0	0	6,226	42	6,268
Loans and advances to customers	347	0	0	368,361	368,708	474,187	842,895
Investments in subsidiaries and associates	0	0	0	0	0	0	0
Property, plant and equipment	0	0	0	0	0	21,936	21,936
Intangible assets	0	0	0	0	0	14,575	14,575
Deferred and current tax assets	0	0	0	0	0	1,464	1,464
Other assets	0	0	0	0	0	8,285	8,285
Total assets	**226,335**	**5,812**	**11,353**	**431,572**	**675,072**	**860,048**	**1,535,120**
LIABILITIES							
Current accounts and deposits of customers and banks	651,681	5,748	10,544	2,105	670,078	579,386	1,249,464
Liabilities on received loans	0	0	0	8,870	8,870	82,299	91,169
Lease liabilities - IFRS 16	0	0	0	1,033	1,033	696	1,729
Provisions for liabilities and charges	2	0	0	0	2	4,503	4,505
Tax liability	0	0	0	0	0	474	474
Other liabilities	351	13	16	0	380	15,090	15,470
Total liabilities	**652,034**	**5,761**	**10,560**	**12,008**	**680,363**	**682,448**	**1,362,811**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**172,309**	**172,309**
Total capital and liabilities	**652,034**	**5,761**	**10,560**	**12,008**	**680,363**	**854,757**	**1,535,120**
NAT ASSETS / EQUITY AND LIABILITIES	**(425,699)**	**51**	**793**	**419,564**	**(5,291)**	**5,291**	**0**

39. Currency risk (continued)

The Bank's foreign currency assets and liabilities as at 31 December 2020 are presented as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	109,238	151	7,929	0	117,318	182,438	299,756
Non-trading financial assets measured at fair value	1,664	0	0	0	1,664	0	1,664
Financial assets at fair value through other comprehensive income	75,059	0	0	74,798	149,857	117,516	267,373
Financial assets at amortized cost - debt securities	0	0	0	0	0	697	697
Financial assets at amortized cost - loans and advances	914	6,125	0	397,477	404,516	484,948	889,464
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	0	0	0	0	0	23,348	23,348
Intangible assets	0	0	0	0	0	10,106	10,106
Tax assets	0	0	0	0	0	1,599	1,599
Other assets	0	0	0	0	0	7,575	7,575
Total assets	**186,875**	**6,276**	**7,929**	**472,275**	**673,355**	**828,227**	**1,501,582**
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	257,127	2,698	6,372	0	266,197	323,964	590,161
Fixed-term deposits	389,877	3,469	1,121	2,314	396,781	222,563	619,344
Liabilities for received loans	0	0	0	14,398	14,398	84,918	99,316
Other financial liabilities	0	0	0	1,701	1,701	624	2,325
Tax liabilities	0	0	0	0	0	202	202
Provisions	1691	0	0	0	1,691	3,074	4,765
Other liabilities	338	11	15	0	364	17,922	18,286
Total liabilities	**649,033**	**6,178**	**7,508**	**18,413**	**681,132**	**653,267**	**1,334,399**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**167,183**	**167,183**
Total capital and liabilities	**649,033**	**6,178**	**7,508**	**18,413**	**681,132**	**820,450**	**1,501,582**
NAT ASSETS / EQUITY AND LIABILITIES	**(462,158)**	**98**	**421**	**453,862**	**(7,777)**	**7,777**	**0**

40. Liquidity risk

The remaining maturity of the Bank's assets and liabilities as at 31 December 2021 is shown as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and cash equivalents	336,245	0	0	0	0	336,245
Financial assets at fair value through profit or loss	0	0	0	0	1,521	1,521
Financial assets at fair value through other comprehensive income	229,806	0	0	0	2,241	232,047
Financial assets at amortized cost - debt securities	0	0	0	0	0	0
Receivables from the Croatian National Bank	2	44,965	13,859	5,605	5,453	69,884
Loans and receivables from banks	5,355	150	763			6,268
Loans and advances to customers	71,480	33,957	117,271	210,503	409,684	842,895
Property, plant and equipment	0	0	0	0	21,936	21,936
Intangible assets	0	0	0	0	14,575	14,575
Deferred tax assets	386	0	132	202	744	1,464
Other assets	30	79	12	0	8,164	8,285
Total assets	**643,304**	**79,151**	**132,037**	**216,310**	**464,318**	**1,535,120**
LIABILITIES						
Current accounts and deposits of customers and banks	227,594	94,265	413,938	187,995	325,672	1,249,464
Liabilities on received loans	231	1,566	2,795	4,434	82,143	91,169
Lease liabilities - IFRS 16	201	157	455	199	717	1,729
Provisions	846	10	44	3,583	22	4,505
Tax liabilities	474	0	0	0	0	474
Other liabilities	15,470	0	0	0	0	15,470
Total liabilities	**244,816**	**95,998**	**417,232**	**196,211**	**408,554**	**1,362,811**
CAPITAL						
Total capital	**0**	**0**	**0**	**0**	**172,309**	**172,309**
Total capital and liabilities	**244,816**	**95,998**	**417,232**	**196,211**	**580,863**	**1,535,120**
NET ASSETS / EQUITY AND LIABILITIES	**398,488**	**-16,847**	**-285,195**	**20,099**	**55,764**	

40. Liquidity risk (continued)

The remaining maturity of the Bank's assets and liabilities as at 31 December 2020 is shown as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	299,756	0	0	0	0	299,756
Non-trading financial assets measured at fair value	0	0	0	0	1,664	1,664
Financial assets at fair value through other comprehensive income	264,104	0	0	0	3,269	267,373
Financial assets at amortized cost - debt securities	221	476		0	0	697
Financial assets at amortized cost - loans and advances	79,387	69,102	137,127	205,042	398,806	889,464
Tangible assets	0	0	0	0	23,348	23,348
Intangible assets	0	0	0	0	10,106	10,106
Tax assets	1,569	0	30	-	-	1,599
Other assets	34	81	0	0	7,460	7,575
Total assets	**645,071**	**69,659**	**137,157**	**205,042**	**444,653**	**1,501,582**
Liabilities						
Financial liabilities measured at amortized cost:						
Demand deposits	444,933	8,299	37,344	99,585	0	590,161
Fixed-term deposits	40,889	83,824	284,857	188,609	21,165	619,344
Liabilities for received loans	603	1,935	4,336	7,367	85,075	99,316
Other financial liabilities	195	145	670	787	528	2,325
Tax liabilities	202	0	0	0	0	202
Provisions	1,153	116	53	3,430	13	4,765
Other liabilities	18,286	0	0	0	0	18,286
Total liabilities	**506,261**	**94,319**	**327,260**	**299,778**	**106,781**	**1,334,399**
CAPITAL						
Total capital	0	0	0	0	167,183	167,183
Total capital and liabilities	**506,261**	**94,319**	**327,260**	**299,778**	**273,964**	**1,501,582**
NET ASSETS / EQUITY AND LIABILITIES	**138,810**	**-24,660**	**-190,103**	**-94,736**	**170,689**	**0**

41. Capital management

D E S C R I P T I O N	Basel III 31 Dec 2021 HRK '000	Basel III 31 Dec 2020 HRK '000
Ordinary shares paid-in	*91,897*	*91,897*
Own/treasury shares	(6,592)	(6,592)
Regular and non-cumulative preferred shares	85,305	85,305
Reserves	*15,183*	*15,183*
Capital profit from purchase and sale of own shares	*149*	*149*
Retained earning	*67,093*	*65,738*
Reserves and retained earnings	82,425	81,070
Intangible assets	(10,530)	(8,864)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	0
Accumulated other comprehensive income	710	(1,149)
Impairment due to prudential valuation	(234)	(269)
Other transitional adjustments	2,770	3,879
Loss for the year	0	0
TIER 1 CAPITAL	160,446	159,972
REGULATORY CAPITAL	**160,446**	**159,972**
CAPITAL ADEQUACY RATE	18.63%	19.43%

VII EVENTS AFTER THE REPORTING DATE, COVID-19 PANDEMIC AND THE WAR IN UKRAINE

In early 2020, the COVID-19 coronavirus spread to almost all countries, causing disruptions in business and economic activity. In order to mitigate the harmful effects of the pandemic on the banking system and the economy as a whole, the CNB adopted protective measures that were still active after the balance sheet date and were used by the Bank to facilitate the return of exposure to its clients.

The COVID-19 pandemic is a source of uncertainty that has affected the Bank's operations, and the full effect will be visible only after the cessation of measures introduced to prevent economic consequences, primarily the delay in loan repayment (moratorium).

The COVID-19 pandemic had effects on the assessment of the recoverability of exposures and the calculation of provisions for credit losses and through the assessment of parameters used in calculating the value of financial assets in accordance with IFRS 9 - Financial Instruments; mostly at the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Bank has adjusted the parameters for the calculation of IFRS 9 in accordance with the new macroeconomic environment for 2020 and 2021 as shown below:

Period	**01.01.2020 30.06.2020**	**01.07.2020 31.12.2020**	**01.01.2021 30.06.2021**	**01.07.2021 31.12.2021**
Macroeconomic indicators				
GDP	2.80%	-9.70%	4.90%	6.80%
Unemployment	-0.70%	2.30%	-0.50%	-0.60%
Inflation	1.40%	-0.03%	1.00%	1.70%
Weights for macroeconomic scenarios				
Pessimistic scenario	15.00%	15.00%	15.00%	15.00%
Neutral scenario	70.00%	70.00%	70.00%	70.00%
Optimistic scenario	15.00%	15.00%	15.00%	15.00%

-PD-influenced by macroeconomics

PO	**30.6.2020.**	**31.12.2020.**	**30.6.2021.**	**31.12.2021.**
PD model by delay day ranges				
0	1.41%	1.53%	1.43%	1.25%
1-30	9.81%	10.39%	1.73%	2.98%
31-60	20.17%	21.12%	17.36%	17.93%
61-90	26.50%	27.61%	17.01%	20.08%

FO				
Model PD				
0	1.78%	1.93%	1.64%	1.44%
1-30	8.34%	8.87%	6.71%	7.21%
31-60	18.75%	19.61%	9.57%	21.99%
61-90	32.75%	33.96%	15.93%	29.86%

The Bank has adopted measures to help citizens whose incomes are threatened by the COVID-19 pandemic. As at 31 December 2021, exposures to customers who have benefited from support measures are shown as follows:

				STATUS COVID-19 (MORATORIUM) NA 31 Dec 2021				
SEGMENT	**REGULATORY CAPITAL**	**NO. OF LOANS**	**BALANCE OF LOAN PRINCIPLE**	**TOTAL EXPOSURE 31 DECEMBER**	**EXPOSURE BY PRINCIPAL 31 DECEMBER**	**SHARE**	**NO OF LOANS**	**SHARE**
LEGAL ENTITIES	24.65%	520	355,739,677,96	39,551,836,58	39,368,968,69	11.07%	12	2.31%
CRAFTS AND FAMILY FARMS	0.13%	450	74,248,525,14	209,560,04	207,430,31	0.28%	2	0.44%
NATURAL PERSONS	0.00%	21,498	448,542,723,74	0,00	0,00	0.00%	0	0.00%
Total	**24.78%**	**22.468**	**878.530.926,84**	**39.761.396,62**	**39.576.399,00**	**4.50%**	**14**	
Capital 31 Dec 2021	**160.446.859**							

The war in Ukraine will create problems on a global level, and this will not bypass Croatia either. What citizens may feel most are rising food prices. Due to the coronavirus pandemic, the whole world is facing inflation which will continue to grow even more due to the war in Ukraine mainly due to higher energy, metal and food prices. The war will definitely have a major economic impact on the euro area. Rising gas and oil prices only contribute to already high energy prices that will negatively affect household disposable income. It also increases costs at the enterprise level, and production disruptions are a risk factor. Confidence among households and businesses is also likely to decline, affecting consumer demand and investment activity. As a result, new forecasts assume average annual inflation above 5% in 2022 and GDP growth of around 3.3% year-on-year compared to 4% earlier. All of the above will certainly affect the general situation, which will contribute to the reduction of regularity in the settlement of credit obligations of the Bank's clients, which will consequently be reflected in the increase of the Bank's NPL. The Bank manages these risks on a daily basis and, by the quality and fast repositioning of the new portfolio, reduces the risks of the existing portfolio, all in accordance with the market situation. Due to the aforementioned risks as well as the announcement of slight interest rate hikes (ECB from 2023), it is assumed that Banks will move in the direction of potential risk reduction and change in lending conditions.

VIII LITIGATION AND CONTINGENT LIABILITIES

As at 31 December 20201, there are several court claims currently being held against the Bank; they are all of lesser value except the claim initiated by Jugobanka d.d., in bankruptcy, Belgrade. The Commercial court in Bjelovar rendered its verdict on 19 June 2008 (Decision VP-167/08-27), whereby the claim of the plaintiff was dismissed as baseless. Appeal was filed against this Decision. At the same time, the plaintiff brought forward a claim for temporary court injunction, to which claim the High Commercial Court of the Republic of Croatia rendered its verdict on 3 June 2008, Decision Pž-3109/08-4, whereby the claim of the plaintiff was dismissed as baseless, and the Decision of the Commercial court in Bjelovar was held up.

The High Commercial Court also rendered its verdict on the claim of the plaintiff, as well as the Decision 53 Pž-6092/08-3 as of 30 October 2012, amending a part of the judgment of the Commercial Court in Bjelovar with respect to the question of annulment of the Contract dated 26 October 1992 and decided the Contract is null and void. At the same time, the High Commercial Court dismissed the remainder of the first-instance judgment pertaining to damage claims through a separate decision, feeling that these issues have not been sufficiently argued on, and the case in that part was returned to the Commercial Court in Bjelovar for re-trial, noting that it should be ascertained whether there are any basis for damage compensation, especially due to and with respect to objection to expiration of statute of limitations.

The Bank lodged a request for revision against this Decision, due to erroneous use of material law and significant breaches of civil case provisions. In the re-trial, the Commercial Court in Bjelovar rendered its verdict Reg. No. 5 P-9/2013-33 dated 1 August 2013, whereby the plaintiff's claims were dismissed in full as baseless. The plaintiff lodged an appeal against the above ruling. The procedure of the second instance before the High Commercial Court of the Republic of Croatia is on-going.

Croatian Supreme Court, by judgment of 7 May 2014, No Revt 156 / 13-2, reversed the judgment of the High Commercial Court of the Republic of Croatian number: 52,Pž-6092 / 08-3 of 30 October 2012 in the way that the part of the judgment of the Commercial Court in Bjelovar the number P-167 / 08-27 of 19 June 2008, which denied request to establish the nullity of the Assumption Agreement the rights and obligations of 26 October 1992 had dismissed the appeal of the plaintiff as unfounded and in that part confirmed the first-

instance judgment. This made the decision of the Commercial Court in Bjelovar on 19 June 2008 in respect of the rejection of the claim Jugobanka a.d., in bankruptcy, Belgrade, for the nullity of the Treaty established in 1992 legal and final.
On 13 February 2015, the Bank received Resolution from the Supreme Court of the Republic of Croatia in the case of prosecutor Jugobanka a.d. in bankruptcy, Belgrade, by which it has accepted the appeal of the Bank against the verdict of the High Commercial Court of the Republic of Croatia dated 30 October 2012.

In October 2016, the Bank received Resolution from High Commercial Court of the Republic of Croatia, No. Pž-8979/2013-2 of 15 September 2016 which denied the appeal of Jugobanka a.d. in bankruptcy, Belgrade, and confirmed the judgment of the Commercial court in Bjelovar No. P-9/13-33 of 1 August 2013 which rejected the entire plaintiff's claim for damages. To the specified judgment Jugobanka a.d. in bankruptcy, Belgrade, submitted a request for revision on the Supreme Court of the Republic of Croatia. On the plaintiff's revision, the Bank submitted a response which denies all the audit states, and audit has not been resolved until the day of the adoption of the financial statements.

The Bank has made provisions for said case in accordance with Article 8; Decision on obligatory provisions of assets for court claims against credit institutions (OG 1/09, 75/09 and 2/10). Provisions are going to remain in place until the Bank, in relation to the claim for damages, does not receive a final judgment in its favour, or judgment, by which would plaintiff's claim be legally rejected in its entirety as unfounded.

IX APPROVAL OF FINANCIAL STATEMENTS

These financial statements were signed and authorized for issuing by the Management Board on 30 March 2022.

For and on behalf of the Management Board:

Andrej Kopilaš,	Marin Prskalo	Oliver Klesinger
President of the Management Board	Member of the Management Board	Member of the Management Board

Slatinska banka d.d.
Vladimira Nazora 2
33520 Slatina
Republic of Croatia

The Bank publishes the following information in accordance with Article 164 of the Credit Institutions Act:

The Bank is providing the following banking services

- acceptance of deposits or other repayable funds from the public and the approval of loans out of such funds, for its own account;
- acceptance of deposits or other repayable funds;
- lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of noncurrent, non-matured receivables collateralised with a financial instrument (forfeiting);
- repurchase of receivables with or without recourse (factoring);
- financial leasing;
- issuance of guarantees or other commitments;
- trading for own account or for the account of clients in: money market instruments; transferable securities; foreign exchange, including currency exchange transactions; financial futures and options; exchange and interest-rate instruments;
- payment services, in accordance with special laws;
- credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- issuing and administering other means of payment, if the provision of such services is not considered the services as described in Article 5, pint 7 of the Credit Institutions Act;
- money broking;
- activities related to the sale of insurance policies in accordance with the law governing insurance;
- participation in the issuance of financial instruments and provision of financial instruments in accordance with the law regulating the capital market
- Provision of supply or sale of financial instruments without the obligation of redemption
- custody activities over financial instruments and custodial services in accordance with the law regulating the capital market
- investment and ancillary services and activities prescribed by a special law regulating the capital market and not included in the services referred to in points 1, 16, paragraph 1, Article 8 of the Credit Institutions Act - granting a loan to an investor to enable him the conclusion of a transaction with one or more financial instruments, if the transaction involves a loan or credit institution.

In 2021, the Bank operated through its headquarters in Slatina, office in Zagreb and branches Osijek, Rijeka, Zagreb, D. Miholjac, Daruvar, Đakovo, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo and Virovitica.

The Bank states the other requirements in accordance with Article 164 of the Credit Institutions Act:

	2021 HRK '000
Total revenue	68,994
Profit before tax	5,098
Profit tax	(1,362)
Number of employees on 31 December 2021	184
Number of full-time employees (paid working hours) in 2021	164
The number of employees on the basis of equivalent full working time in 2021	135

The cost of the audit of the annual financial statements and the related audit for the needs of the Croatian National Bank amounted to HRK 140 thousand plus VAT. During 2021 and in the two years preceding the year of the audit, the auditor did not perform any other assignments for the Bank.

The Bank did not receive public subsidies in 2021.

Statement of Financial Position (Balance Sheet) as at 31 December 2021

Statement of Financial Position (Balance Sheet)

Balance on 31.12.2021.

Form BAN-BIL

Description		AOP code	Note no.	Preceding year	Current year
1		2	3	4	5
ASSETS					
1.	**Cash, cash receivables from central banks and other demand deposits (AOP 002 to 004)**	**001**		299,756,120	336,245,059
1.1.	Cash	**002**		22,004,522	20,850,460
1.2.	Cash receivables from central banks	**003**		267,259,976	292,491,011
1.3.	Other demand deposits	**004**		10,491,622	22,903,588
2.	**Financial assets held for trade (AOP 006 to 009)**	**005**		0	0
2.1.	Derivatives	**006**		0	0
2.2.	Equity instruments	**007**		0	0
2.3.	Debt securities	**008**		0	0
2.4.	Loans and advances	**009**		0	0
3.	**Financial assets not held for trade which is measured at fair value through profit or loss (AOP 011 to 013)**	**010**		1,663,939	1,521,490
3.1.	Equity instruments	**011**		318,063	275,386
3.2.	Debt securities	**012**		1,345,876	1,246,104
3.3.	Loans and advances	**013**		0	0
4.	**Financial assets at fair value through profit or loss (AOP 015+016)**	**014**		0	0
4.1.	Debt securities	**015**		0	0
4.2.	Loans and advances	**016**		0	0
5.	**Financial assets at fair value through other comprehensive income ((AOP 018 to 020)**	**017**		267,372,692	232,046,885
5.1.	Equity instruments	**018**		3,269,346	2,240,774
5.2.	Debt securities	**019**		264,103,346	229,000,989
5.3.	Loans and advances	**020**		0	805,122
6.	**Financial assets at amortised cost (AOP 022+023)**	**021**		890,168,560	919,058,604
6.1.	Equity instruments	**022**		697,356	0
6.2.	Loans and advances	**023**		889,471,204	919,058,604
7.	**Derivatives – hedge accounting**	**024**		0	0
8.	**Changes in fair value of hedged items in interest risk portfolio**	**025**		0	0
9.	**Investments in subsidiaries, joint ventures and affiliates**	**026**		0	0
10.	**Tangible assets**	**027**		23,348,393	21,935,847
11.	**Intangible assets**	**028**		10,106,189	14,575,159

SLATINSKA BANKA d.d., Slatina
Appendix - The Bank's annual financial statements (in HRK) prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions

12. Tax assets	**029**		1,599,466	1,464,236
13. Other assets	**030**		7,566,935	8,272,899
14. Fixed assets and disposal groups classified as ready-to –sale	**031**		0	0
15. TOTAL ASSETS (AOP) 001+005+010+014+017+021+024TO031)	**032**		1,501,582,294	1,535,120,179
Liabilities				
16. Financial liabilities held for trade (AOP 034 to 038)	**033**		0	0
16.1. Derivatives	**034**		0	0
16.2. Short term items	**035**		0	0
16.3. Deposits	**036**		0	0
16.4. Issued debt securities	**037**		0	0
16.5. Other financial liabilities	**038**		0	0
17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)	**039**		0	0
17.1. Deposits	**040**		0	0
17.2. Issued debt securities	**041**		0	0
17.3. Other financial liabilities	**042**		0	0
18. Financial liabilities measured at amortised cost (AOP 044 to 046)	**043**		1,311,268,063	1,342,362,127
18.1. Deposits	**044**		1,308,820,609	1,340,633,316
18.2. Issued debt securities	**045**		0	0
18.3. Other financial liabilities	**046**		2,447,454	1,728,811
19. Derivatives – hedge accounting	**047**		0	0
20. Changes in fair value of hedged items in interest risk portfolio	**048**		0	0
21. Provisions	**049**		4,765,146	4,504,792
22. Tax liabilities	**050**		201,642	473,673
23. T1 capital returned at request	**051**		0	0
24. Other liabilities	**052**		18,165,997	15,470,191
25. Laiblilities included in disposal groups classified as ready for sale	**053**		0	0
26. TOTAL LIABILITIES (AOP 033+039+043+047 to053)	**054**		1,334,400,848	1,362,810,783
EQUITY				
27. Share capital	**055**		91,897,200	91,897,200
28. Share premium	**056**		148,620	148,620
29. Issued equity instruments (excluding capital)	**057**		0	0
30. Other equity instruments	**058**		0	0
31. Accumulated other comprehensive profit	**059**		-548,255	843,923
32. Retained earnings	**060**		65,737,662	67,093,427
33. Revaluation reserves	**061**		0	0
34. Other reserves	**062**		15,182,803	15,182,803
35. Treasury shares	**063**		-6,592,348	-6,592,348
36. Profit or loss belonging to owners of parent company	**064**		1,355,764	3,735,771
37. Dividend during the business year	**065**		0	0
38. Minority (non-controlling share)	**066**		0	0
39. TOTAL CAPITAL (AOP 055 to 066)	**067**		167,181,446	172,309,396
40. TOTAL LIABILITIES AND CAPITAL (AOP 054+067)	**068**		1,501,582,294	1,535,120,179

SLATINSKA BANKA d.d., Slatina
Appendix - The Bank's annual financial statements (in HRK) prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions

Statement of other comprehensive income for the period 01 January 2021 to 31 December 2021

Profit and Loss Account
for the period 01.01.2021. do 31.12.2021.

Form BAN-RDG

Description		AOP code	Note no.	Preceding year	Current year
1		2	3	4	5
1.	Interest income	**069**		55,258,955	52,667,923
2.	Interest expenses	**070**		6,159,173	3,410,485
3.	Expenses from T1 capital returned upon request	**071**		0	0
4.	Income from dividends	**072**		0	0
5.	Fee and commission income	**073**		11,514,125	12,613,986
6.	Fee and comission expenses	**074**		3,736,132	3,840,971
7.	Gains or losses after ceasing recognition of financial assets and financial liabilities not measured at fair value through profit or loss, net	**075**		48,041	160,377
8.	Gains or losses from financial assets and financial liabilities held for trade, net	**076**		1,984,045	2,006,396
9.	Gains or losses from financial assets not held for trade, measured at fair value through profit or loss, net	**077**		-2,635,319	-224,132
10.	Gains and losses from financial assets and financial liabilities at fair value through profit or loss, net	**078**		0	0
11.	Gains or losses from hedge accounting, net	**079**		0	0
12.	Exchange differences (profit or loss), net	**080**		-191,830	53,750
13.	Gains or losses after ceasing recognition of non-financial assets, net	**081**		0	0
14.	Other operating income	**082**		3,009,112	1,231,108
15.	Other operating expenses	**083**		990,365	930,992
16.	**TOTAL OPERATING INCOME (AOP069-070-071+072+073-074+075 to082-083)**	**084**		58,101,459	60,326,960
17.	Administrative expenses	**085**		39,970,129	42,762,487
18.	Cash contributions to resolution committees and deposit insurance schemes	**086**		2,879,193	7,516
19.	Amortisation	**087**		4,450,846	4,065,910
20.	Gains or losses due to change, ner	088		0	0
21.	Provisions or discontinuation of provisions	**089**		-1,767,477	-259,570
22.	Impairment or discontinuation of impairment of financial assets not measured at fair value through profit or loss	**090**		10,279,565	8,652,896
23.	Impairment or discontinuation of impairment of investment in subsidiaries, joint ventures and affiliates	091		0	0
24.	Impairment or discontinuation of impairment of non-financial assets	**092**		0	0
25.	Negative goodwill recognised in profit or loss	**093**		0	0
26.	Share in profit or loss from investemnts in subsidiaries, joint ventures and affiliates, calculated by share method	**094**			
27.	Profit or loss from fixed assets and disposal groups classified as ready for sale and not qualified as non-continuing	**095**		0	0

28. PROFIT OR LOSS BEFORE TAXATION (FROM CONTINUING OPERATIONS) AOP 084-085+087-088 to091+092 to 094	**096**		2,289,203	5,097,721
29. Tax income or expenses from continuing operations	**097**		933,439	1,361,950
30. PROFIT OR LOSS AFTER TAXATION (FROM CONTINUING OPERATIONS) AOP 095-096	**098**		1,355,764	3,735,771
31. Profit or loss after taxation (from non-continuing concern operations) (AOP 099—100)	**099**		0	0
31.1. Profit or loss before taxation (from non-continuing operations)	**100**		0	0
31.2. Tax income or expenses from non-continuing operations	**101**		0	
32. PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097+098; 102+103)	**102**		1,355,764	3,735,771
33. Attributed to minority (non-controlling) share	**103**		0	0
34. Attributed to owners of parent company	**103**		0	0
STATEMENT OF OTHER COMPREHENSIVE INCOME				
1. Profit or loss for the current year (AOP 101)	**105**		1,355,764	3,735,771
2. Other comprehensive income (AOP 106+118)	**106**		83,806	1,392,178
2.1. Items not reclassified into profit or loss (AOP 107 to 113+116+117)	**107**		-950,124	1,805,473
2.1.1. Tangible assets	**108**		0	0
2.1.2. Intangible assets	**109**		0	0
2.1.3. Actuarial gains or losses on employer sponsored pension plans	**110**		0	0
2.1.4. Fixed assets and disposal groups ready for sale	**111**		0	0
2.1.5. Share of other recognised income and expenses from subjects calculated by share method	**112**		0	0
2.1.6. Changes of fair value of equity instruments measured at fair value through other comprehensive income	**113**		-950,124	1,805,473
2.1.7. Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	**114**		0	0
2.1.8. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	**115**		0	0
2.1.9. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)	**116**		0	0
2.1.10. Changes of fair value of financial liabilities measured at fair value through profit or loss, attibuted to changes in currency risk	**117**		0	0
2.1.11. Corporate income tax related to non-reclassified items	**118**		0	0
2.2. Items that can be reclassified into profit or loss (AOP 119 to 126)	**119**		1,033,930	-413,295
2.2.1. Hedging of net investment in foreign operations (effective shares)	**120**		0	0
2.2.2. Calculation of foreign currency	**121**		0	0
2.2.3. Hedging of cash flows (effective shares)	**122**		0	0
2.2.4. Risk protection insrtruments (not determined)	**123**		0	0
2.2.5. Debt instruments at fair value through other comprehensive income	**124**		1,033,930	-413,295
2.2.6. Fixed assets and disposal groups ready for sale	**125**		0	0

SLATINSKA BANKA d.d., Slatina
Appendix - The Bank's annual financial statements (in HRK) prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions

2.2.7. Share of other recognised income and expenses from investment in subsidiaries, joint ventures and affiliates	126		0	0
2.2.8. Corporate incoem tax related to items that can be classified into profit or loss	127		0	0
3. Total comprehensive income of the current year (AOP 104+106 and AOP 128+129)	**128**		1,439,570	5,127,949
4. Attributed to minority (non-controlling) share	**129**		0	0
5. Attributed to owners of mother company	**130**		0	0

STATEMENT OF OTHER COMPREHENSIVE INCOME				
6. Profit or loss for the current year (AOP 101)	**105**		1,355,764	3,735,771
7. Other comprehensive income (AOP 106+118)	**106**		83,806	1,392,178
7.1. Items not reclassified into profit or loss (AOP 107 to 113+116+117)	**107**		-950,124	1,805,473
7.1.1. Tangible assets	**108**		0	0
7.1.2. Intangible assets	**109**		0	0
7.1.3. Actuarial gains or losses on employer sponsored pension plans	**110**		0	0
7.1.4. Fixed assets and disposal groups ready for sale	**111**		0	0
7.1.5. Share of other recognised income and expenses from subjects calculated by share method	**112**		0	0
7.1.6. Changes of fair value of equity instruments measured at fair value through other comprehensive income	**113**		-950,124	1,805,473
7.1.7. Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	**114**		0	0
7.1.8. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	**115**		0	0
7.1.9. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)	**116**		0	0
7.1.10. Changes of fair value of financial liabilities measured at fair value through profit or loss, attibuted to changes in currency risk	**117**		0	0
7.1.11. Corporate income tax related to non-reclassified items	**118**		0	0
7.2. Items that can be reclassified into profit or loss (AOP 119 to 126)	**119**		1,033,930	-413,295
7.2.1. Hedging of net investment in foreign operations (effective shares)	**120**		0	0
7.2.2. Calculation of foreign currency	**121**		0	0
7.2.3. Hedging of cash flows (effective shares)	**122**		0	0
7.2.4. Risk protection insrtruments (not determined)	**123**		0	0
7.2.5. Debt instruments at fair value through other comprehensive income	**124**		1,033,930	-413,295
7.2.6. Fixed assets and disposal groups ready for sale	**125**		0	0
7.2.7. Share of other recognised income and expenses from investment in subsidiaries, joint ventures and affiliates	**126**		0	0

7.2.8.	Corporate incoem tax related to items that can be classified into profit or loss	**127**		0	0
8.	**Total comprehensive income of the current year (AOP 104+106 and AOP 128+129)**	**128**		1,439,570	5,127,949
9.	**Attributed to minority (non-controlling) share**	**129**		0	0
10.	**Attributed to owners of mother company**	**130**		0	0

STATEMENT OF CASH FLOWS – Indirect method for the period 01 January 2021 to 31 December 2021

CASH FLOW STATEMENT – Indirect method

for the period 01.01.2021. do 31.12.2021.

Form BAN-NTI

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
Operating activities and adjustments				
1. Profit / loss before taxation	001		2,289,203	5,097,721
2. Impairment ad provisions	002		8,512,088	8,393,326
3. Depreciationa	003		4,450,846	4,065,910
4. Net gains/ losses from financial assets at fair value in P&L Statement	004		2,635,319	-224,132
5. Gains/losses from sale of tangible assets	005		0	0
6. Other non-monetary items	006		0	0
Changes in operating assets and liabilities				
7. Deposits with CNB	007		21,778,124	25,231,035
8. Deposits with banking institutions and loans to credit institutions	008		-885,666	-12,411,966
9. Loans to other clients	009		39,353,947	-29,575,759
10. Securities and other financial instruments at fair value through other comprehensive income	010		11,121,796	35,325,806
11. Securities and other financial instruments held for trade	011		0	0
12. Securities and other financial instruments not actively traded and evaluated at fair value through profit and loss	012		0	0
13. Securities and other financial instruments measured at fair value through profit or loss	013		-113,552	-142,448
14. Securities and other financial instruments measured at amortised cost	014		3,288,616	697,356
15. Other operating assets	015		3,729,881	-705,963
Increase / decrease in operating liabilities				
16. Deposits from financial institutions	016		4,280,867	-718,644
17. Transaction accounts of other clients	017		47,594,826	158,796,608
18. Saving depostis of other clients	018		18,977,184	29,014,044
19. Term deposits of other clients	019		-106,081,496	-146,396,034
20. Derived financial liabilities and other trading liabilities	020		0	0
21. Other liabilities	021		1,041,612	-27,020,410
22. Collected interest from operating activities	022		-2,704,138	1,789,953
23. Received dividends from operating activities	023		0	0
24. Paid interest from perating activities	024		-1,090,452	-652,487
25. Paid corporate income tax	026		0	0
A) Net cash flow from operating activities (AOP 021 to 024)	**026**		58,179,005	50,563,916
Investing activities				
1. Receipts from sale / purchase / tangible and intangible assets	027		-4,743,488	-5,935,732
2. Receipts from sale / purchase / investments in subsidiaries, joint ventures and affiliates	028		0	0
3. Collection/ purchase / debt and other financial instruments from investin activities	029		0	0
4. Received dividents from investing activities	030		0	0
5. Other receipts / payments / from investing activities	031		0	0
B) Net cash flow from investing activities (AOP 026 to 030)	**032**		-4,743,488	-5,935,732

SLATINSKA BANKA d.d., Slatina
Appendix - The Bank's annual financial statements (in HRK) prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
Financing activities				
1. Net increase / reduction in received loans	**033**		42,520,983	-8,339,838
2. Net increase / reduction in issued debt securities	**034**		0	0
3. Net increase / reduction in subordinate and hybrid instruments	**035**		0	0
4. Increase in T1 capital	**036**		0	0
5. Paid dividends	**037**		0	0
6. Other receipts / payments from financial activities	**038**		205,383	200,593
A) Net cash flow from financial activities (AOP 032 to 037)	**039**		42,726,366	-8,139,245
B) Net increase / reduction in cash and cash equivalents (AOP 025+031+038))	**040**		96,161,883	36,488,939
Cash and cash equivalents at the beginning of the year	**041**		203,594,237	299,756,120
Influence of changes in exchange rate on cash and cash equivalents	**042**		0	0
Cash and cash equivalents at the end of the year (AOP 039+040+041)	**043**		299,756,120	336,245,059

SLATINSKA BANKA d.d., Slatina
Appendix - The Bank's annual financial statements (in HRK) prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions

CHANGES OF EQUITY for the period from 01 January 2021 to 31 December 2021

Form BAN-PK

PROMJENE KAPITALA

period from 01.01.2021. to 31.12.2021.

Form BAN-PK

Taxpayer: ________; SLATINSKA BANKDA D.D.

Position	ADP	Note	Attributable to the owner of parent											Minority interest		total
			Share capital	Share premium	Equity instruments (other than share capital)	Other shares	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit/loss attributable to the owners of parent	Dividend	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 do 16)
1. Opening balance (before corrections)	01		91,897,200	148,620	0	0	-548,255	65,737,663	0	15,182,803	-6,592,348	1,355,764	0	0	0	167,181,446
2. Effect of corrections	02		0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Effects of changes in accounting policies	03		0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Opening balance (current period) (AOP 01 to 03)	04		91,897,200	148,620	0	0	-548,255	65,737,663	0	15,182,803	-6,592,348	1,355,764	0	0	0	167,181,446
5. Issuing regular shares	05		0	0				0	0	0					0	0
6. Issuing preferred shares	06		0	0	0			0	0	0					0	0
7. Issuing other equity instruments	07				0			0	0	0					0	0
8. Execution or expiration of other issued equity instruments	08				0			0	0	0					0	0
9. Transfering liabilities into equity instruments	09		0	0	0	0		0	0	0					0	0
10. Reduction in capital	10		0	0				0	0	0	0	0			0	0
11. Dividends	11		0	0	0	0		0	0	0	0		0		0	0
12. Purchase of treasury shares	12							0	0	0	0			0	0	0
13. Sale or cancellation of trasury shares	13							0	0	0	0			0	0	0
14. Reclassification of financial instruments from equity to liability	14		0	0	0	0									0	0
15. Reclassification of financial instruments from laibility to equity	15		0	0	0	0									0	0
16. Transfer between equity instruments components	16				0	0	0	1,355,764	0	0		-1,355,764	0	0	0	0
17. increase or decrease of equity instruments as a consequence of business combinations	17		0	0	0	0	0	0	0	0	0				0	0
18. increase based on shares	18		0	0		0									0	0
19. other increase or decrease of equity instruments	19				0	0	0	0	0	0	0	0	0	0	0	0
20. total comprehensive profit for the current year	20						1,392,178	0	0	0		3,735,771		0	0	5,127,949
21. closing balance (current period) (AOP 04 to 20)	21		91,897,200	148,620	0	0	843,923	67,093,427	0	15,182,803	-6,592,348	3,735,771	0	0	0	172,309,396

Off-balance sheet items:

1	**OFF-BALANCE SHEET ITEMS**	**31 Dec 2021**	**31 Dec 2020**
2	Guarantees	40,826,126	32,092,452
3	Letters of credit	0	0
4	Letters of guarantee	0	0
5	Accepted bills of exchange	0	0
6	Revolving loans	4,477,931	4,730,662
7	Indicative margin loans	0	0
8	Other credit lines and commitments	84,267,481	83,210,029
9	Other risk off-balance sheet items	0	0
10	Total off-balance sheet items	129,571,538	120,033,143

APPENDIX 1 – IN ACCORDANCE WITH THE ACCOUNTING ACT AND THE DECISION ON THE STRUCTURE AND CONTENT OF ANNUAL FINANCIAL STATEMENTS OF CREDIT INSTITUTIONS

The basic financial statements have been prepared in accordance with the Decision of the Croatian National Bank (''CNB'') on the structure and content of the annual financial statements of credit institutions (OG 42/18, 122/20 and 119/21).

Credit institutions are required to prepare annual financial statements referred to in Article 19 of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 47/2020) according to the structure and content of the Guidelines for the implementation of the Decision on the structure and content of the annual financial statements of credit institutions and in accordance with the provisions of International Financial Reporting Standards.

Data in the Statement of Financial Position (Balance Sheet), Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity are presented in HRK for the current and previous year.

The annual financial statements of the Bank for the period ended 31 December 2021 and the accompanying accounting policies and notes as an integral part thereof were signed and approved by the Bank's Management Board on 30 March 2022.

SLATINSKA BANKA d.d., Slatina
Appendix – The Bank's annual financial statements (in HRK) prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions

The reconciliation between the annual financial statements and the GFI-POD (AFS-BAN) consists exclusively in the division of individual items that are significant in the front of the annual financial statements into several items equal in sum, all presented as follows:

ASSETS	in '000 HRK	ASSETS	in '000 HRK	Note	Difference
1. Cash, cash receivables from credit institutions and other demand deposits	336,245	Cash and cash equivalents	336,245	15	0
3. Non-traded financial assets measured at fair value through profit or loss	1,521	Financial instruments at fair value through profit or loss	1,521	16	0
5. Financial assets at fair value through other comprehensive income	232,047	Financial assets at fair value through OCI	232,047	17	0
6.1. Debt securities – financial assets at amortised cost	0	Financial assets at amortised cost debt securities	0	18	0
6.2. Loans and advances	919,059	Loans	919,047	19	12
10. Tangible assets	21,936	Property, plant and equipment	21,936	20	0
11. Intangible assets	14,575	Intangible assets	14,575	21	0
12. Tax assets	1,464	Deferred and current tax assets	1,464	22	0
13. Other assets	8,273	Other assets	8,285	23	-12
15. TOTAL ASSETS	**1,535,120**	**Total assets**	**1,535,120**		0
LIABILITIES		**LIABILITIES**			
18.1. Deposits	1,340,633	Deposits	1,340,633	24	0
Other financial liabilities	1,729	Lease liabilities – IFRS 16	1,729	25	0
21. Provisions	4,505	Provisions for liabilities and expenses	4,505	26	0
22. Tax liabilities	474	Current tax liability	474	27	0
24. Other liabilities	15,470	Other liabilities	15,470	28	0
26. TOTAL LIABILITIES	**1,362,811**	Total liabilities	**1,362,811**		0
CAPITAL		**CAPITAL**		29	
27. Share capital	91,897	Share capital	91,897		0
28. Share premium	149	Share premium	149		0
29. Equity instruments issued (other than share capital)	0				
30. Other equity instruments	0				
31. Accumulated other comprehensive income	844	Fair value reserve	844		0
32. Retained earnings	67,093	Retained earnings	70,829		-3.736
33. Revaluation reserves	0				
34. Other reserves	15,182	Other reserves	15,182		0
35. Treasury shares	-6,592	Reserves on own shares	-6,592		0
36. Profit or loss attributable to the owners of parent	3,736				3.736
37. Dividends	0				
38. Minority (non-controlling) interest	0				
39. TOTAL CAPITAL	**172,309**	**TOTAL CAPITAL**	**172,309**		0
40. TOTAL EQUITY AND LIABILITIES	**1,535,120**	**TOTAL EQUITY AND CAPITAL**	**1,535,120**		0

Adjustments consist exclusively in the division of individual balance sheet items, while in other reports there are no adjustments. In cash flow, there are no differences in the total of the three basic activities, only in the presentation of individual balance sheet items.