CROATIA BANKA d.d.

ANNUAL REPORT FOR 2021

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Introduction

The Annual Report includes the Management Board Report on the Bank's position, financial overview and overview of operations, audited financial statements with the Independent auditor's report and other statutory and regulatory reports for the Croatian National Bank. Unless otherwise noted, all amounts in the Annual Report are presented in thousands of kuna (HRK).

Legal form

The Annual Report has been prepared in line with the Accounting Act and the Companies Act which require reporting to the shareholders at the annual meeting of shareholders by the company management. Pursuant to the Accounting Act, the basic financial statements include the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow and notes to the financial statements, and the Companies Act stipulates in Article 250a an obligation to submit an annual report on the Bank's position.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and audited in accordance with International Standards on Auditing.

Abbreviations

In this Annual Report, Croatia banka d.d. is referred to as the "Bank", the Croatian National Bank as the "CNB", the Croatian Bank for Reconstruction and Development as the "CBRD", the Croatian Deposit Insurance Agency as the "CDIA", the Financial Agency as "FINA", the European Union as the "EU", International Financial Reporting Standards as "IFRS", Other comprehensive income as "OCI", Profit and loss account as P&L, entity identification number as "OIB" and gross domestic product as the "GDP".

Exchange rates

For the purpose of translating the amounts in foreign currencies into HRK amounts, the following mid exchange rates of the CNB were used:

31 December 2021	EUR 1 = HRK 7.517174	USD 1 = HRK 6.643548
31 December 2020	EUR 1 = HRK 7.536898	1 USD = HRK 6.139039

Operational summary and key financial indicators
(amounts in millions of HRK)

Indicator/Year	2021	2020	2019	2018	2017
Key indicators					
Net profit/(loss)	9	5	(25)	(25)	(31)
Operating profit	19	12	12	-	23
Total assets	1,861	1,921	1,969	2,306	2,491
Loans and advances to customers	1,077	1,114	1,125	1,081	1,153
Total deposits received	1,525	1,572	1,638	2,037	2,156
Capital and reserves	118	111	107	130	152

Other indicators					
Ratio of operating expenses in operating income	71.5%	81.4%	82.3%	99.9%	72.7%
Return on equity	8.1%	4.4%	(19.1%)	(17.7%)	(17.9%)
Return on assets	0.4%	0.3%	(1.2%)	(0.9%)	(1.1%)
Regulatory capital	114	110	104	126	146
Total capital ratio	15.90%	15.01%	13.20%	14.98%	15.85%

Historical development of the Bank

Croatia banka d.d., Zagreb was founded on 22 December 1989, under the name Banka male privrede, d.d., Zagreb. On that day, 50 shareholders paid in socially owned capital contributions to form the initial (share) capital of 22,340,435,000 former Yugoslav dinars, equivalent to DEM 319,149 (which was then the condition for establishing a bank), which was subsequently divided into 4,565 founders' shares. On 25 January 1990 the Bank received from the Yugoslav National Bank the Decision granting full banking licence and had it registered at the court on 18 July 1990. On 4 May 1990, the Bank changed its name from Banka male privrede d.d. Zagreb into Croatia banka male privrede d.d. Zagreb, (abbreviated: "Croatia banka d.d. Zagreb"), and on 21 June 1995 it changed its name into Croatia banka d.d. Zagreb.

As a result of difficulties faced by the Bank, a procedure to rehabilitate the Bank was initiated in 1999 and, pursuant to Article 15(1), Article 16(1) and Article 17(1) of the Bank Rehabilitation and Restructuring Act (Croatian Official Gazette no 44/94) and Section VII of the Decision of the Government of the Republic of Croatia on the rehabilitation and restructuring of Croatia banka d.d. Zagreb of 27 September 1999 and the Decision of the Government of the Republic of Croatia on amendments to the Decision on rehabilitation and restructuring of Croatia banka d.d. Zagreb of 24 May 2000, the General Assembly of Croatia banka d.d. adopted on 13 September 2000 a Decision on issuing new replacement shares in the amount of HRK 204.6 million and a Decision on amendments to the Statute of Croatia banka d.d., which formally ended the process of the Bank's rehabilitation. The CDIA contributed capital to the Bank in the amount of the replacement shares, and the Bank continued to operate as a Croatian joint stock company (Croatian: 'dioničko društvo') wholly owned by the State.

Information on economic trends[1]

After intensive economic growth in the third quarter, real growth continued in the fourth quarter whereby real GDP grew by 10.4% in 2021, thus exceeding the pre-crisis level. In 2022, economic growth of 4.1% is expected. Negative risks related to the further course of the pandemic will continue to be present, so it is estimated that the economic growth risks have a mainly negative tendency.
In 2021, average consumer price inflation accelerated to 2.6%, and it is expected to remain at that average level in 2022. The annual inflation rate in 2021 was 5.5%, which is mainly the result of accelerating growth in energy prices.
The current and capital surplus on the balance of payments in 2021 increased noticeably compared to the previous year, primarily due to the strong recovery in tourism revenues, and such trends could continue in 2022. During the second half of 2021, the CNB continued to pursue an expansionary monetary policy, mainly buying foreign exchange inflows from the Ministry of Finance, which primarily relate to obtained EU funding. Significant purchases of foreign currency from the state in 2021 contributed the most to the significant growth in banks' free cash, which helped reduce financing costs, with some interest rates falling to their lowest level ever. Retail lending continued to strengthen, mainly due to the continued multi-year acceleration in the growth of housing loans, while the growth of corporate placements slowed down on an annual basis. According to the latest amendments to the budget in 2021, there could be a general government budget deficit of 4.5% of GDP, and the draft budget for 2022 envisages a deficit of 2.6% of GDP. After a one-off increase in 2020, the general government debt share is expected to be on a downward trajectory again.

Labour market

After a slight decrease in 2020, employment recovered in 2021, with measures taken by the Government of the Republic of Croatia to maintain employment in crisis-affected industries. Throughout 2021, an employment growth of 1.2% was achieved, with the number of employees exceeding those realised in 2019. Employing workers from third countries also contributed significantly to the growth of total employment. In 2022, employment growth is expected to continue (1.5%). The average nominal gross salary increased by 4.6% in 2021, primarily due to an increased tax base in the public sector, reflected also in the remaining areas of the economy after having decreased the tax burden in the income tax system in early 2021. But due to the expected rise in consumer prices, purchasing power is growing weaker.
In 2022, the growth of the average nominal gross salary could remain at approximately the same level, primarily due to stronger salary growth in the rest of the economy amidst evident labour shortage in tourism and the reconstruction of earthquake-affected areas.

Prices

Annual consumer price inflation accelerated to 2.6% in 2021 (from 0.1% in 2020) and will remain at that level in 2022. In 2021, inflation mainly accelerated due to a strong increase in the annual rate of energy price changes, as a result of rising crude oil prices on the world market. In addition, the prices of other components of the consumer price index other than food and energy are growing somewhat faster, as a result of inflationary pressures due growing demand, but also rising commodity prices on the world market, increased freight rates and supply chain disruptions.
The risks of inflation in 2022 exceeding the projected 2.4% are very dominant, stemming primarily from a possible significant increase in administratively regulated prices (especially gas and electricity) and potential growing inflationary pressures in demand. There is also a risk of higher import inflation.

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[1]Macroeconomic trends and forecast, CNB, December 2021
Croatian Bureau of Statistics, www.dzs.hr

Information on economic trends (continued)

Current and capital account in the balance of payments

The current and capital account surplus, after amounting to 2.0% of GDP in 2020, is estimated to reach 4.6% of GDP in 2021. This was mainly due to a strong increase in net exports of services, especially tourism revenues. Although to a much lesser extent, current and capital account developments were favourably affected by the increase in net inflows of remittances and a further increase in the use of EU funds. On the other hand, the expected growth of the foreign trade deficit and the growth of the profitability of foreign-owned banks and companies mitigated the growth of the current and capital account surplus. Throughout 2021, a higher net outflow of capital is expected than last year, primarily due to a strong decrease in net debt of domestic sectors. After a multi-year trend of improving the relative ratio of gross external debt in the previous year was temporarily interrupted by the fall in nominal GDP, in 2021 the decline in the gross external debt ratio to GDP is reassessed. In 2022, due to the expected further increase in net exports of services and the continued acceleration of the absorption of EU funds, the current and capital account surplus could increase further to 5.0% of GDP.

Monetary policy

During 2021, the CNB continued to pursue an expansionary monetary policy, mainly buying foreign exchange inflows from the Ministry of Finance, which mainly relate to obtained EU funding. Significant purchases of foreign currency from the state in 2021 contributed the most to the significant growth in banks' free cash, which helped reduce financing costs, with some interest rates falling to their lowest level ever. Loans of credit institutions to companies decreased during 2021, with only loans for investments increasing. Retail lending continued to strengthen, especially housing loans, while the growth of non-purpose cash loans was somewhat milder. In 2021, retail loans increased by 4.2%. Given that the current and capital surplus on the balance of payments could increase further, it can be expected that the CNB will continue to increase international reserves in 2022 and create reserve money through foreign exchange transactions. In such circumstances, the HRK exchange rate against the EUR should be stable, financing conditions favourable, with the continued strong growth of M1 and M4 monetary aggregates. In 2022, the growth of retail loans is expected to slow down, while corporate lending will be strengthened, which could increase total loans (excluding the state) at the same pace as in 2021.

Fiscal policy

As to fiscal policy, according to the latest amendments to the 2021 budget, after the general government budget deficit of 7.4% of GDP in 2020, in 2021 it was assessed that due to economic recovery and phasing out anti-crisis measures, a general government deficit of 4.5% of GDP could be achieved. According to the 2022 draft budget, the deficit should fall below 3% of GDP and continue to gradually decrease according to the projections for 2023 and 2024. The European Commission's projections predict a similar budget deficit trajectory. When it comes to public debt trends, after a marked increase in the share of general government debt in GDP in 2020, in 2021 and later years they were assessed to be on a downward trajectory again.

Description of operations

The Bank's activities include all types of deposit and loan operations for legal entities and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

The Bank is wholly-owned (100%) by the state and in terms of assets (HRK 1.9 billion) it ranks 16th among a total of 20 banks. As at 31 December 2021, the Bank operates through 8 branches, a Sales Department for Legal Entities in Zagreb and 3 outlets.

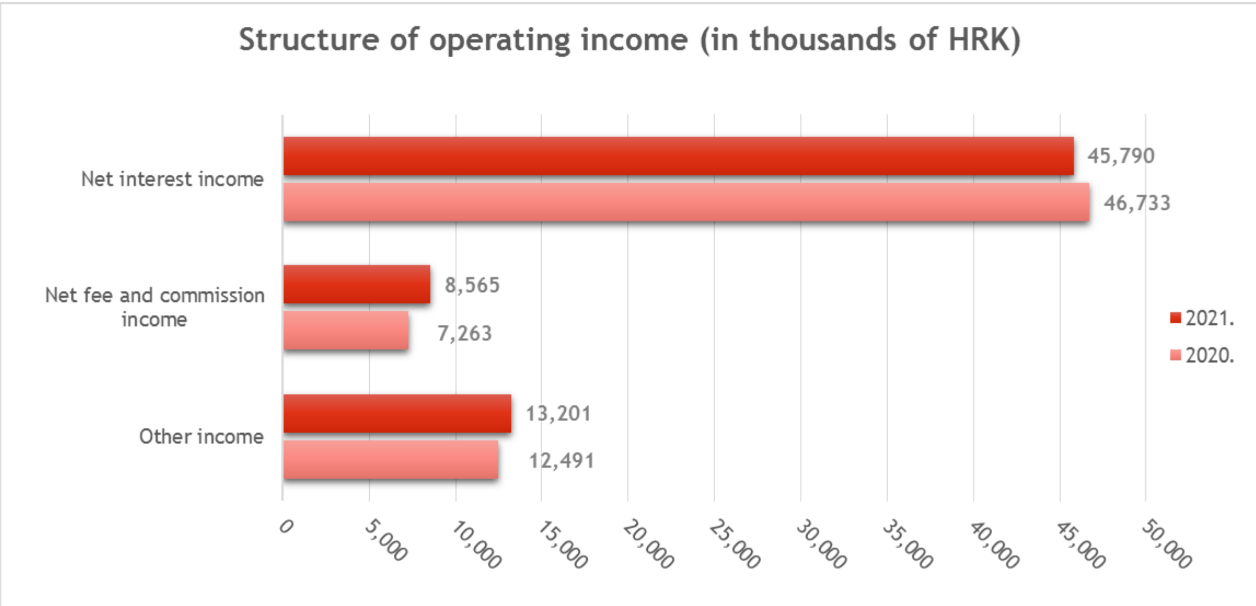
As at 31 December 2021, the regulatory capital amounted to HRK 114,471 thousand, and the total regulatory capital adequacy ratio is 15.90%.

During 2021, the Bank implemented *Balance ScoreCard*. This is a balanced view of organisational performance and the realisation of strategically set goals important for the Bank's lasting stability, competitiveness and sustainability. 4 areas of observation or dimensions were identified: finance, market and clients, processes and efficiency, and employees and organisation. Within each area, 5 key indicators were identified, whose realisation is monitored on a monthly basis.

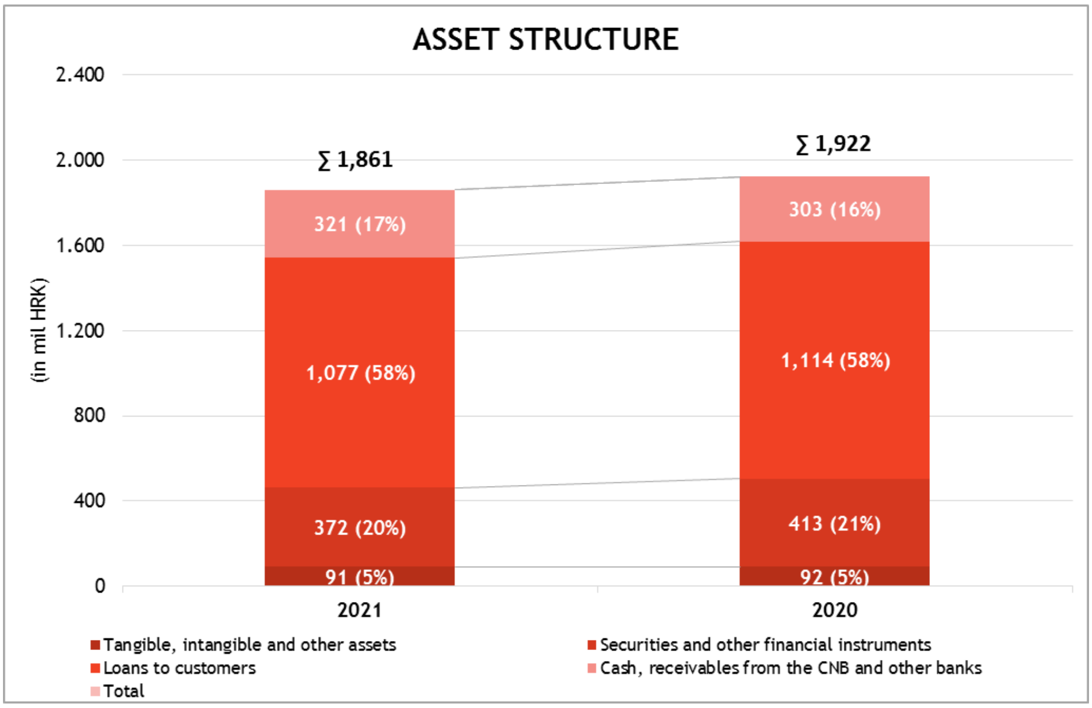
In 2021, the Bank realised profit after tax in the amount of HRK 9,324 thousand.

Operating profit amounted to HRK 19,269 thousand, and the impairment and provisioning cost amounted to HRK 12,060 thousand.

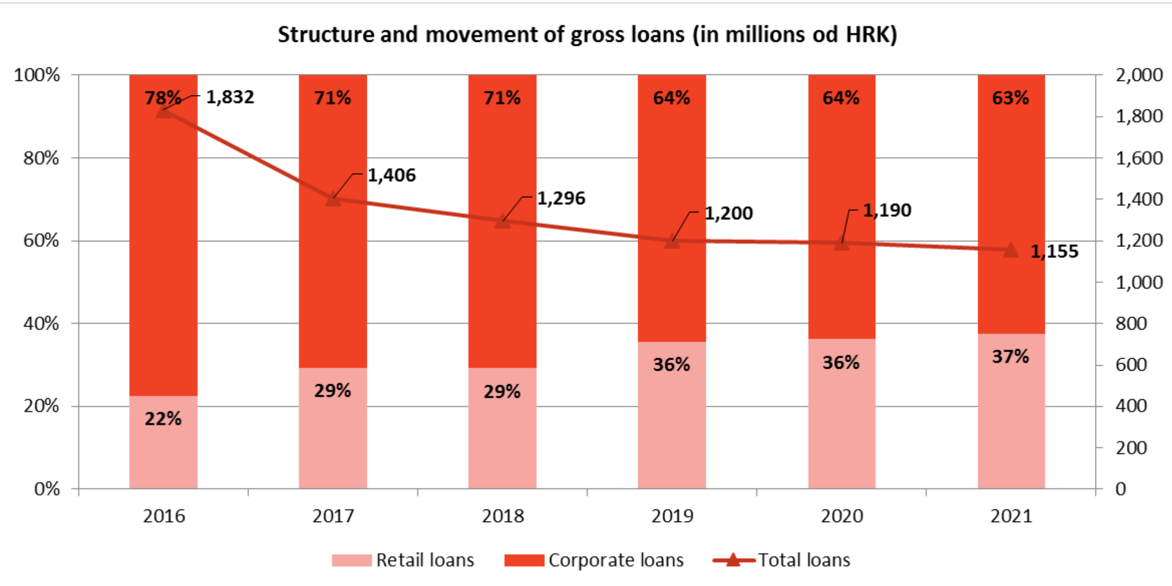
Total net operating income decreased by 1.6%, while operating expenses are down by 9.3% over 2020, which led to a significant increase in the 2021 operating result. The most significant portion of operating income is net interest income, accounting for 67.8% (HRK 45,790 thousand) of total income.



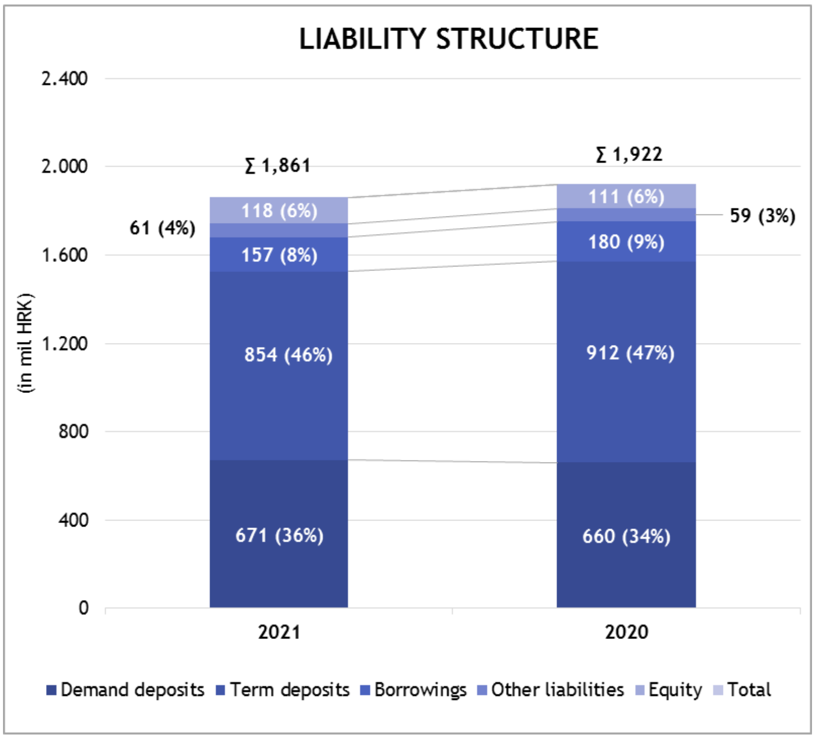
At the end of 2021, the Bank's assets amounted to HRK 1,861 million, down by HRK 61 million compared to 2020. Loans and receivables from customers (58%), followed by securities and other instruments (20%) and cash, receivables from the Croatian National Bank and other banks (17%) account for the largest share in the asset structure.



As at 31 December 2021, total gross loans to customers amounted to HRK 1,155 million and are down by 2.9% compared to 2020, mostly due to a decline in corporate loans. In the structure of loans to customers, 63% are corporate loans, and 37% loans to individuals (including loans to sole traders).

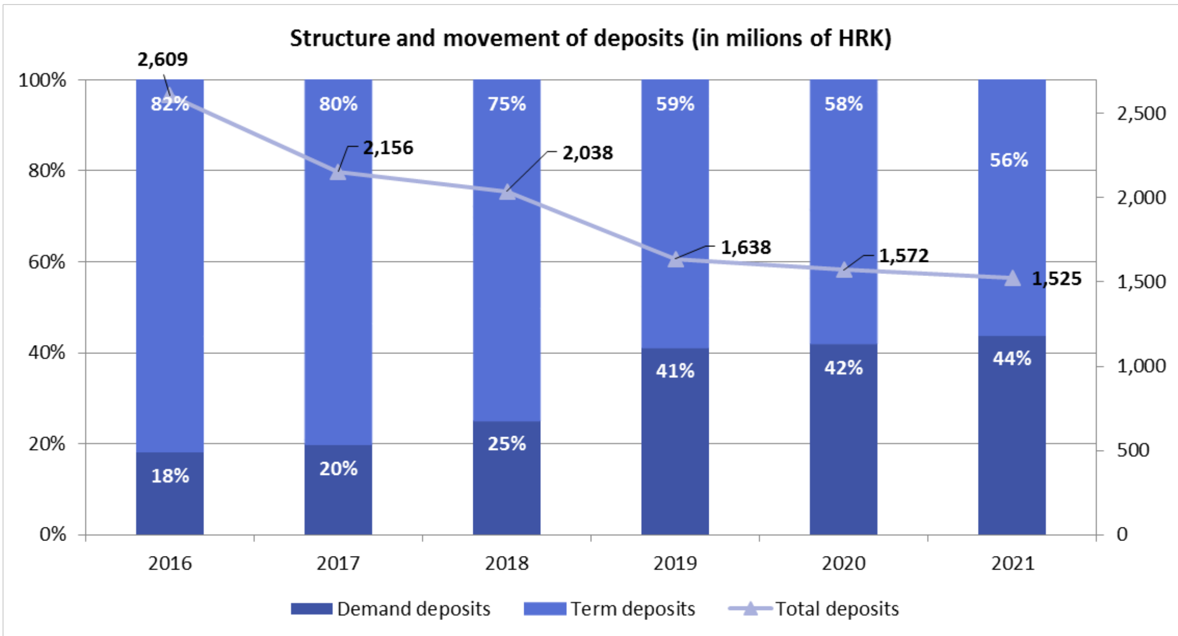


In the liability structure, the most significant share of 46% relates to term deposits, followed by demand deposits with 36%.



At the end of 2021, total deposits amounted to HRK 1,525 million and recorded a decrease of 3.2% (or HRK 61 million) compared to the end of 2020, with retail deposits falling by 1.9% and corporate deposits increasing by 6.2%.

Total deposits mainly comprise term deposits (56%), followed by demand deposits (44%). Total term deposits decreased by 6.4%, and their share in the structure of total deposits decreased by 1.0 percentage point. In 2021, demand deposits increased by 1.7%.



Retail banking operations

The past 2021 was marked by a slight slowdown in lending activity (HRK 61 million were paid) compared to the previous year. Considering that part of the employers and their employees suffered strong consequences of the pandemic, in the previous year the focus was on monitoring such clients resulting in less credit risk. In addition to the above, significant activities have been undertaken in order to collect receivables.

Deposits decreased by HRK 22 million last year. The decline in deposits was mostly due to maturities of deposits in closed business units, which were at higher interest rates, thus contributing to a further decrease in interest expenses. The Bank is continuously undertaking activities aimed at an individual approach to clients in order to mitigate this decline or even encourage the growth of deposits.

The number of total current accounts fell by 5%, but the number of active current accounts increased slightly compared to the previous year. Most current accounts were closed due to their inactivity and sale, all for the purpose of cleaning up the client data base. The number of Internet and mobile banking users increased by almost 10%, which is a continuation of previous year's trend and a consequence of the strong focus of the Bank's sales activities on digital channels, the impact of the crisis and the reduced number of customer visits to the Bank's branches.

Revenues from the sale of third-party products decreased compared to the previous year, as a result of reduced credit activity of citizens and different product structuring. This decline was partially mitigated by expanding the product range by commencing a business cooperation with new business partners, such as pension funds, credit cards and three types of packaged current accounts.

The decrease in lending activity in the area of investment banking (margin and S loans) also affected the decrease in interest income and custody fees.

Despite the aforementioned challenging environment, total income from fees and commissions increased by 3% compared to the previous year, primarily regarding income from account management fees (current accounts, giro accounts, a vista savings accounts) by 21% and higher fees regarding credit card transactions (36%) where a volume increase was also recorded.

Throughout 2021, the Bank intensively built its infrastructure in the area of selling third-party products, and additionally invested in the development of training for sales staff and management positions (cashiers, personal bankers and directors). In addition, numerous trainings were held in the field of sales skills. External partners regularly conducted training in the field of product sales. The national ATM network project has started in cooperation with FINA aiming at transferring Croatia banka's ATM network under FINA's charge. Thereby, a good and solid foundation was created for a positive continuation of business in the coming period.

Corporate banking operations

In the 2021 business plan, the tendency was to retain existing quality clients and the primary focus was to expand the client base of small and medium enterprises.

At the end of 2021, the total gross loan portfolio of corporate customers amounted to HRK 722 million, which is a decrease of HRK 37 million compared to the end of 2020. This was primarily the result of a decrease in the volume of loans to corporations, while loans to small and medium-sized enterprises increased by more than 3%. It is important to note that during 2021, over HRK 60 million of loans were repaid early, primarily in the segment of larger enterprises.

With the aim of increasing the number of clients, an acquisition campaign was conducted, which resulted in approximately HRK 6 million in newly approved loans. In the segment of corporate banking operations, the collection of past due receivables, i.e. the share of non-performing loans in the total portfolio, is systematically monitored. It can be concluded that collection is performed regularly and within the prescribed deadlines and that there are no new non-performing loans.
The volume of off-balance sheet items increased by 19%, which had a positive effect on non-interest income.

During 2021, activities were continuously undertaken in order to raise the quality of business processes in cooperation with other organisational units of the Bank with an emphasis on the credit process, which is planned to be further improved in 2022.

Corporate deposits (excluding deposits from other banks) account for 24.5 percent of the Bank's total deposits. Compared to the end of 2020, corporate deposits recorded a slight decrease by 6.2% and amounted to HRK 373 million. Thereof, demand deposits amounted to HRK 273 million, while term deposits amounted to HRK 100 million.

Interest income generated in the corporate segment accounted for 56% of the Bank's total interest income, while the corporate segment accounted for only 10% of the interest expense. This is the result of systematically monitoring the maturity of deposits and adjusting interest rates when renewing deposits.

Fee income increased significantly compared to the previous year, primarily due to the adoption of a new tariff of fees for payment transactions, a higher volume of Internet banking and stricter control of contractual obligations to perform payment transactions by customers.

Treasury operations

During 2021, the Bank maintained a high level of HRK and foreign currency liquidity. Unlike in pre-pandemic years, in order to provide sufficient funds for a possible significant withdrawal of deposits caused by the uncertainties related to the Covid-19 pandemic and to avoid reputational risk, the Bank retained the strategy of holding a larger share in primary liquidity reserves.

In 2021, the Bank used a daily average of HRK 140 million of HRK repo loans at an average interest rate of 0.25%, which, compared to 2020, represents an increase (2020: HRK 108.9 million), but there is still a significant decrease in interest rates (2020: 0.609%). This is the result of the restructuring performed in 2020 (early repayment of HRK 110 million of structural repo loans at an interest rate of 1.2% and new borrowing in the total amount of HRK 140 million at an interest rate of 0.25%), since in 2021 the CNB did not hold auctions of structural operations.
As far as foreign currency repo loans are concerned, during 2021, in order to ensure the ratio of foreign currency receivables and foreign currency liabilities above the internally determined limit, the Bank used an average of HRK 31.6 million daily repo loans in euros, compared to HRK 14.5 million in 2020, but at an interest rate of -0.0657%, while the average interest rate in 2020 stood at 0.002%.

In order to manage currency risk and ensure a balanced foreign exchange position, during 2021 again the Bank did not use FX swaps. Instead, the Bank used the purchase and sale of foreign exchange only.

In 2021, the securities portfolio (bonds and treasury bills) decreased by 9.7% or HRK 39.8 million. The decrease in the securities portfolio is a result of the overall management of primary and secondary liquidity and the overall management of assets and liabilities. Considering the above, the bond portfolio was decreased by 26.34% in 2021, or HRK 62.1 million. With minimal trading expenses, the risk of price changes was decreased, the EVE (ex EVKI) indicator was improved and a positive impact on the Bank's capital was ensured. Unlike the bond portfolio, the portfolio of treasury bills in 2021 increased by 12.7 percent or HRK 22.86 million, which ensured a sufficient level of additional liquidity reserves.

Despite the major market disruptions caused by the Covid-19 pandemic, the planned trading revenues for 2021 were achieved, and the Bank continued to maintain a high level of liquidity as its primary goal.

Internal controls system and internal audit

The internal controls system has been established at the Bank’s level by internal acts that define the responsibilities of the Bank’s individual organisational units.

The internal controls system at the Bank has been established as a set of processes and procedures designed for the purpose of adequate risk control, monitoring the efficiency and effectiveness of the Bank’s operations, reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes to ensure stability of the Bank’s operations.

Internal audit is an independent control function and constitutes a part of the Bank's internal control system. Internal audit is independent of all business processes and activities whose operations it audits, assessing in the course of its work the efficiency and effectiveness of the internal control and risk management system in the Bank's business processes.
In the course of the audit implementation, the internal audit function evaluates the internal control system of specific business segments and the adequacy and efficiency of risk management. The adequacy and effectiveness of the system of internal controls, risk management and compliance assessment is determined on the basis of reviewed documentation, processes and internal acts for a particular area of business that was subject to audit.

Internal audit

The Internal Audit Department has been set up as a separate organisational unit, functionally and organisationally independent of activities it audits and other organisational units of the Bank.

Internal Audit constitutes a follow-up internal supervision of the Bank's entire operations and is organised to support and assist the Management Board and represents an advisory, informative and control function that reports to the Bank's Management Board, the Audit and Risk Committee and the Supervisory Board on the Bank's business areas and internal control system operational risks by preparing reports and providing proposals, recommendations and measures to improve the Bank's operations.

The scope and operational methods of the Internal Audit Department are detailed in the Internal Audit Methodology proposed by the department itself, and adopted by the Bank's Management Board.

The Annual Audit Plan is based on documented risk assessments and contains all the relevant elements from the Decision on the management system and internal acts. The Annual Operating Plan of the Internal Audit Department is approved by the Bank’s Management Board based on a prior consent of the Audit Committee and/or the Supervisory Board.

The Internal Audit Department prepares operational reports in accordance with its activities and the plans determined for each area of operation of the Internal Audit Department. In the course of the audit, any identified illegalities, irregularities and deficiencies/weaknesses are assessed according to the risk categories and recommendations are made to eliminate them. In addition to the type of findings and risk category, each identified finding in the audit report shall also state the type of risk to which the finding is related (credit risk, operational risk, business risk, reputational and compliance risk, and information system risk).
The operational report on each audit performed is submitted to the Management Board of the Bank and to the responsible persons of the organisational segment of the Bank competent for the business segment that was subject to audit to the Audit and to the Audit and Risk Committee.

The Internal Audit Department submits quarterly reports on internal audit activities to the Bank's Management Board, the Audit and Risk Committee, the semi-annual and annual report on operations also to the Bank's Supervisory Board, and the annual report also to the Croatian National Bank.

Corporate Governance Statement

Pursuant to the provisions of Article 272p of the Companies Act and Article 22 of the Accounting Act, the Management Board of Croatia banka d.d. Zagreb hereby declares that the Bank implements the Corporate Governance Positions for banks on a voluntary basis.

In 2021, the Bank continuously followed and applied the recommendations determined in the CNB’s Positions, disclosing all information the disclosure of which is provided by positive regulations as well as making disclosures that are in the interest of the Bank’s owners and clients.

Pursuant to the corporate governance requirements and in line with the provisions of the Companies Act, the Supervisory Board performs the internal oversight by regular controls of submitted reports. Members of the Supervisory Board regularly obtain detailed information on the Bank’s management and operations. At the Supervisory Board meetings, all issues from the Board's area of responsibilities are discussed and decided on.

The Bank maintains business and other records and business documentation, prepares accounting documents, realistically assesses assets and liabilities, prepares financial statements and other reports in accordance with accounting regulations and standards and the applicable legislation.

Corporate governance at the Bank is implemented not only by meeting regulatory requirements, but it also derives from the culture of corporate and personal integrity of the management and employees. The description of main characteristics in carrying out internal supervision and risk management in relation to financial reporting are contained in this Annual report.

Nominees for the president and members of the Bank’s Management Board must meet all requirements prescribed by legislation governing banking operations and other relevant regulations. Once the Croatian National Bank approves the nominees, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to four years. The powers of the Bank's Management Board are defined by law and the Statute. The division of the respective responsibilities of the Management Board and its president are determined in a separate decision adopted with the consent of the Supervisory Board.

Decisions on amendments to the Statute are adopted at the Bank’s General Assembly, in line with the Act and the Statute.
For the purpose of protecting the interests of the owners, clients, employees and all other stakeholders, Croatia banka d.d. Zagreb aims to fully align its operations with the highest corporate governance standards.

Bank’s management structure

In accordance with the Companies Act, the Credit Institutions Act and the Bank’s Statute, the Bank’s governance structure comprises the Supervisory Board and the Management Board, whose duties and responsibilities are also regulated by the above regulations.

Other information

The Bank did not carry out any research and development activities during 2021.
The Bank did not purchase any treasury shares during 2021.
The Bank does not own other legal entities.
The purchase and sale of financial instruments constitute an integral part of the Bank’s operations and are described in detail in these financial statements.
Details about the Bank’s financial risk management goals and policies, its exposure to price risk, credit risk, liquidity risk and other risks are provided in the accompanying financial statements.

Independent Auditor's Report

To the Owner of Croatia Banka d.d.

Report on the audit of the financial statements

Our opinion

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

Our opinion is consistent with our additional report to the Audit Committee dated 22 March 2022.

What we have audited

The Bank's financial statements 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 changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Our audit approach

Overview

Materiality	• HRK 1.2 million, which represents 1% of net assets.
Key audit matters	• Credit losses on loans and advances to customers

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

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

Materiality

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

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

Overall Bank materiality	HRK 1.2 million
How we determined it	1 % of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because it is the benchmark which is closely monitored and there is a strong focus on regulatory compliance measured by the adequacy of the capital (net assets).

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Credit losses of loans and advances to customers As at 31 December 2021, the Bank had recognised credit losses for loans and advances to customers in the amount of HRK 83,341 thousand. Following notes provide information relating to loans and advances to customers and its credit losses: Note 16 Loans and advances to customers, Note 2.20.1. Credit losses of loans and advances, Note 2 Significant accounting policies and Note 32 Risk management policies. Credit losses are the management's best estimate of expected credit losses on loans and advances at the reporting date. The amount of the credit losses is determined in accordance with International Financial Reporting Standards ("IFRS"). The Bank applies a three-stage model for credit losses, based on changes in credit quality since initial recognition. For loans in Stage 1 and Stage 2, the Bank applies expected credit loss calculation in accordance with IFRS. For loans in Stage 3, credit losses are determined as the difference between the book value and the recoverable amount, which represents the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the loans' original effective interest rate. We focused on this area because of the significance of these items in the Bank's financial statements and the fact that there is a judgement involved in application of the guidance for calculation of expected credit losses defined by IFRS 9 methodology.	We tested controls for approving and monitoring of loans and advances to customers, including appropriateness of classification of loans, calculation of days past due and calculation of credit losses. We have selected a sample of loans and advances to customers with the focus on exposures with potentially highest impact on the financial statements due to their size and/or risk profile such as restructured exposures and non-performing loans for which we assessed valuation method and staging adequacy and for which we recalculated expected credit losses. For Stage 1 and Stage 2 portfolio we have reviewed expected credit loss calculation methodology and polices for credit losses recognized, while for stage 3 we have reviewed supporting documentation and discussed any issues with responsible personnel in the Bank. Also, we have assessed on sample basis adequacy of staging changes in accordance with relevant policies based on additional model adjustments impacted by Covid-19 pandemic. For credit losses calculated on specific level, we have assessed key assumptions used in recovery scenarios, such as future cash flow estimates and recoverable value of collateral to ensure the exposures have been classified and measured in accordance with IFRS 9 requirements. We assessed financial statements disclosures which relate to expected credit losses for loans and advances to customers, including disclosures relating to impact of Covid-19 pandemic. Furthermore, we evaluated whether key components of expected credit loss calculation are correctly incorporated in the models and tested on a sample basis the correctness of stage allocation according to the relevant policies in order to conclude expected loss calculation adequacy and compliance with IFRS requirements.

Reporting on other information including the Management Report

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

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank on 27 September 2018. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 23 September 2021, representing a total period of uninterrupted engagement appointment of 4 years.

Forms in accordance with regulatory requirements

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

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

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

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

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union, in order to give a true and fair view of the financial position and operating results of Croatia banka d.d. (the "Bank") for that period.

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

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

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Act in force (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20). The Management Board is also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for the preparation and the content of the Annual Report in accordance with Article 19 and 21 of the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20), and also for the supplementary regulatory reports.

Signed on behalf of the Management Board:

15 March 2022

Danijel Luković
President of the Management Board

CROATIA BANKA
d.d. Zagreb
UPRAVA

Tadija Vrdoljak
Member of the Management Board

in thousands of HRK	*Note*	**2021**	**2020**
Interest income calculated using the effective interest method	*3*	50,238	52,024
Interest expense	*4*	(4,448)	(5,291)
Net margin on interest and similar income		**45,790**	**46,733**
Credit loss allowances	*9*	(8,663)	(6,513)
Net margin on interest and similar income after credit loss allowances		**37,127**	**40,220**
Fee and commission income	*5*	11,762	10,577
Fee and commission expense	*6*	(3,197)	(3,314)
Provisions and impairment	*10*	(3,397)	(1,742)
Gains less losses from financial instruments measured at fair value through other comprehensive income		(228)	1,240
Gains less losses from financial instruments measured at fair value through profit or loss		(17)	12
Gains less losses arising from dealing in foreign currencies		2,600	2,079
Gains less losses from modifications to financial assets measured at amortised cost that are not caused by derecognition		(11)	(33)
Gains less foreign exchange losses		(91)	335
Lease income	*7.1*	4,714	4,554
Other operating income	*7.2*	11,294	7,943
Staff costs	*8*	(27,527)	(27,410)
Depreciation and amortisation	*8*	(2,421)	(3,190)
Other operating expenses	*8*	(23,404)	(26,289)
Profit before tax		**7,204**	**4,982**
Income tax	*11*	**2,120**	**(67)**
Profit for the year		**9,324**	**4,915**
Other comprehensive income			
Items that may be reclassified to profit or loss		**(2,359)**	**(1,463)**
Gains less losses during the year from the measurement of financial assets at fair value through other comprehensive income		(2,285)	(2,507)
Gains less losses on the sale of financial assets at fair value through other comprehensive income transferred to profit or loss on disposal		(74)	1,044
Items that will not be reclassified to profit or loss		**457**	**116**
Realised gains on the sale of financial assets at fair value through other comprehensive income		46	-
Income tax recognised directly in other comprehensive income	*11*	411	116
TOTAL COMPREHENSIVE INCOME		**7,422**	**3,568**

The accompanying accounting policies and notes are an integral part of these financial statements.

in thousands of HRK	*Note*	31 December 2021	31 December 2020
ASSETS			
Cash	*12*	219,199	200,953
Receivables from the Croatian National Bank	*13*	83,664	85,849
Placements with banks	*14*	18,109	15,941
Financial assets at fair value through OCI	*15*	371,949	412,226
Financial assets at fair value through profit or loss		-	434
Financial assets at amortised cost		2,342	-
Loans and advances to customers	*16*	1,076,856	1,114,343
Investment property	*17*	35,530	35,630
Property and equipment	*18*	7,342	7,199
Intangible assets	*18*	3,519	2,711
Foreclosed assets	*19*	20,472	25,685
Deferred tax assets	*11*	3,273	742
Other assets	*20*	18,924	19,787
Total assets		**1,861,179**	**1,921,500**
EQUITY AND LIABILITIES			
Liabilities to banks	*21*	6,271	4,884
Demand deposits	*22*	664,749	655,111
Term deposits	*23*	853,975	911,578
Borrowings	*24*	157,075	179,681
Lease liabilities	*28*	2,609	2,407
Other liabilities	*25*	7,010	7,671
Provisions	*26*	51,341	49,441
Total liabilities		**1,743,030**	**1,810,773**
EQUITY			
Share capital	*27*	474,600	474,600
Accumulated loss	*27*	(355,160)	(364,530)
Reserves	*27*	(1,291)	657
Total equity		**118,149**	**110,727**
Total liabilities and equity		**1,861,179**	**1,921,500**

The accompanying accounting policies and notes are an integral part of these financial statements.

CROATIA BANKA d.d.
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

in thousands of HRK	Share capital	Accumulated loss	Reserves	Total
Balance at 1 January 2020	**474,600**	**(369,445)**	**2,004**	**107,159**
Profit for the year	-	4,915	-	4,915
Other comprehensive income				
Gains less losses during the year from the measurement of financial assets at fair value through other comprehensive income	-	-	(2,507)	(2,507)
Gains less losses on the sale of financial assets at fair value through other comprehensive income transferred to profit or loss on disposal	-	-	1,044	1,044
Income tax recognised directly in other comprehensive income	-	-	116	116
Total comprehensive income for 2020	-	-	*(1,347)*	*(1,347)*
Balance at 31 December 2020	**474,600**	**(364,530)**	**657**	**110,727**
Balance at 1 January 2021	**474,600**	**(364,530)**	**657**	**110,727**
Profit for the year	-	9,324	-	9,324
Other comprehensive income				
Gains less losses during the year from the measurement of financial assets at fair value through other comprehensive income	-	-	(2,285)	(2,285)
Gains less losses on the sale of financial assets at fair value through other comprehensive income transferred to profit or loss on disposal	-	-	(74)	(74)
Realised gains on the sale of financial assets at fair value through other comprehensive income	-	46	-	46
Income tax recognised directly in other comprehensive income	-	-	411	411
Total comprehensive income for 2021	-	-	*(1,948)*	*(1,902)*
Balance at 31 December 2021	**474,600**	**(355,160)**	**(1,291)**	**118,149**

The accompanying accounting policies and notes are an integral part of these financial statements.

CROATIA BANKA d.d.
STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

in thousands of HRK	Note	2021	2020
NET CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**7,204**	**4,982**
Adjustment to net cash from operating activities			
Depreciation and amortisation	8	2,408	3,190
Foreign exchange gains		(2,600)	(2,079)
Net credit losses	9	8,663	6,513
Provisions and impairment	10	3,397	1,742
Interest income	3	(50,238)	(52,024)
Interest expense	4	4,448	5,291
Other non-cash items		(1,040)	(642)
Operating cash flows before changes in working capital:			
Decrease in loans and receivables		31,102	1,795
Decrease in receivables from the CNB and placements with banks		2,188	34,598
Decrease in other assets		651	35
(Decrease) in other current liabilities		(661)	(2,292)
Increase/(decrease) in liabilities to banks		1,387	(13,322)
(Decrease) in deposits		(49,324)	(55,709)
Other (decrease) in cash flow		(91)	-
Changes in working capital			
Income tax paid	11	-	-
Interest received		47,403	52,981
Interest paid	25	(741)	(491)
Net cash used in operating activities		**4,156**	**(15,432)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(2,085)	(1,597)
Proceeds from sale of financial assets at fair value through profit or loss		434	1,203
Payments for purchases of financial assets at fair value through profit or loss		(2,342)	-
Sale of financial assets at fair value through other comprehensive income		39,818	40,498
Proceeds from sale of foreclosed assets		5,085	4,283
Net cash flow from investing activities		**40,910**	**44,387**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings	25	(23,224)	(3,159)
Proceeds from new borrowings	25	-	21,183
Lease payments	25	(1,194)	(1,172)
Net cash flow from financing activities		**(24,418)**	**16,852**
Cash and cash equivalents at beginning of year (Note 30)		**216,894**	**171,293**
Net change in cash and cash equivalents		**20,648**	**45,807**
Effect of change in expected credit losses on cash and cash equivalents		**(234)**	**(206)**
Cash and cash equivalents at end of year (Note 30)		**237,308**	**216,894**

The accompanying accounting policies and notes are an integral part of these financial statements.

1. GENERAL INFORMATION ABOUT THE BANK

Legal framework and activities

Croatia banka d.d. Zagreb (the "Bank") was registered in the court register as a joint stock company in 1989 under registration number 080007370. The registered office of the Bank is at Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

Croatia banka d.d. is wholly owned (100%) by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) which is owned by the Republic of Croatia. During 2021, banks in the Republic of Croatia did not pay the deposit insurance premium because the target level of the basic and additional deposit insurance fund was achieved.

The Bank's activities include all types of deposit and loan operations for legal entities and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

The Bank has 8 branches - Branch Čakovec, Branch Osijek, Branch Pula, Branch Slavonski Brod, Branch Split, Branch Vinkovci, Branch Virovitica, Branch Vukovar, Branch Županja, a Sales Department for Legal Entities in Zagreb and 3 outlets: Outlet Županja, Outlet Šubićeva Zagreb and Outlet Sky Office Zagreb.

Bank's bodies

Supervisory Board
The Supervisory Board operates in accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, whereby its main responsibility is the supervision of the Bank's operations and the appointment and dismissal of the president and members of the Management Board. In addition, the Supervisory Board approves the Management Board's business policies, financial plans, strategies and policies of risk taking and management, strategies and procedures for assessing the adequacy of internal capital, acts that establish and ensure adequate functioning of the internal control system, plans of control function operations, salary and other benefits policy, organisational structure of the Bank, and it also decides on other issues as determined by law or the Bank's internal acts.

Members of the Supervisory Board are elected i.e. appointed for a period of four years.

In 2021, the members of the Supervisory Board were:
1 January - 31 December 2021
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member

In 2020, the members of the Supervisory Board were:
1 January - 31 December 2020
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Management Board

Competences, duties and responsibilities of the Bank's Management Board in conducting business and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Statute and the Rules of the Bank's Management Board operations.

The Management Board manages its business and manages its assets, and it has the responsibility and power to take any action and make any decision necessary for the successful management of the Bank. In managing business operations, the Management Board in particular is responsible for ensuring that the Bank operates in accordance with the rules on risk management in accordance with the Credit Institutions Act and other legislation and internally set regulations and laws; approving and regularly reviewing risk management strategies and policies, including managing risks that arise from the macroeconomic environment in which the Bank operates, and the state of the business cycle of the Bank; ensuring systematic monitoring, assessment and the strategy for maintaining or reaching the adequate amount of capital in relation to risks to which the Bank is exposed in its operations; ensuring functioning of the internal controls system for all areas of the Bank's operations; ensuring unobstructed internal audit; ensuring that the Bank keeps business and other records and business documentation, prepares accounting documents, realistically estimates assets and liabilities, prepares financial and other reports in accordance with accounting regulations and standards and the Credit Institutions Act and other regulations adopted on the basis of law; ensuring that the Bank reports and informs the Croatian National Bank in line with the Credit Institutions Act and other regulations adopted on the basis of law; and ensuring the implementation of measures ordered by the Croatian National Bank.

The Management Board consists of at least two to maximum three members, one of which is appointed as the President of the Management Board. The President and a member of the Management Board represent the Bank solely and independently.

The Bank's Management Board is appointed by the Supervisory for a period of not more than four years, with the option of reappointment.

In 2021, the Management Board Members were as follows:

Danijel Luković – President of the Management Board
Tadija Vrdoljak – Member of the Management Board

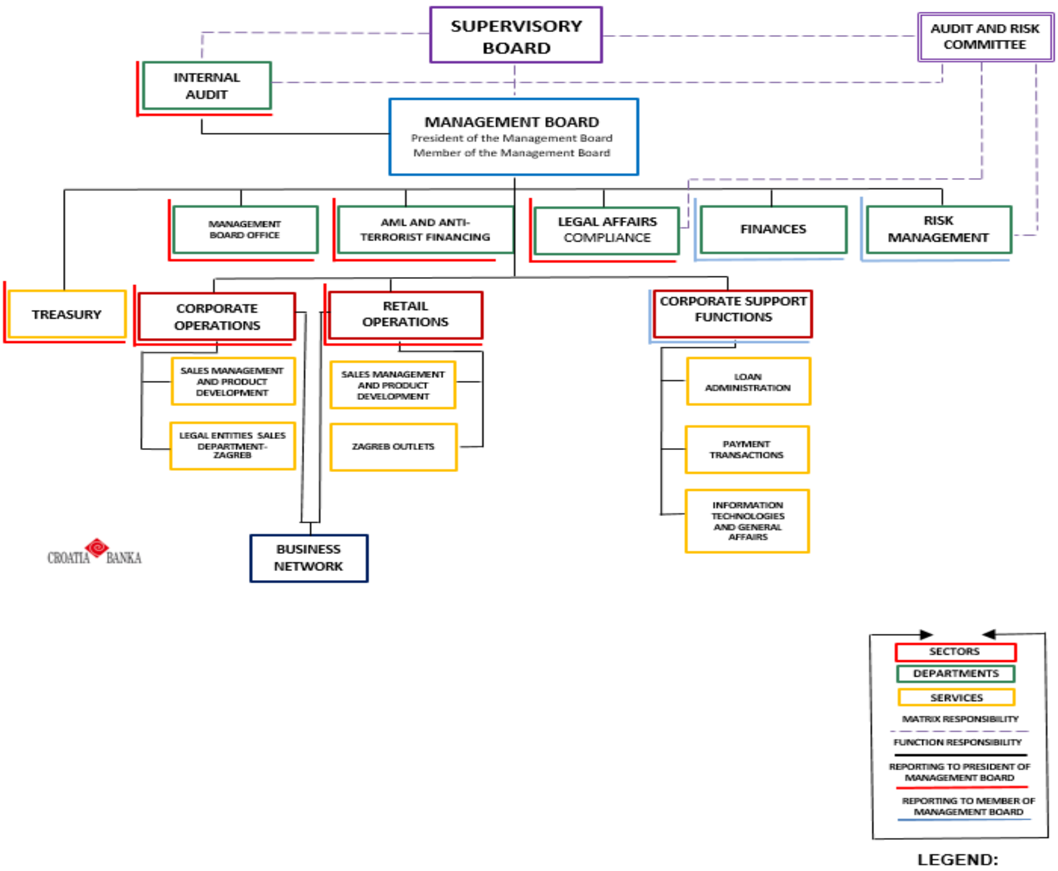
In 2020, the Management Board Members were as follows:

Danijel Luković – President of the Management Board
Tadija Vrdoljak – Member of the Management Board

1. GENERAL INFORMATION (continued)

Organisational structure

ORGANISATIONAL CHART



Capital management

In the previous period, the Bank's owner increased its share capital on several occasions. The most recent increase was made in October 2012 in the amount of HRK 200 million, by converting bonds into equity bonds, representing in aggregate a hybrid instrument, i.e. supplementary capital in the amount of HRK 70 million and contributing HRK 130 million in cash. Similar to the previous year, in 2021 the Bank's lending activities continued to be focused on extending loans to the government and state-owned companies guaranteed by the Republic of Croatia that, under the applicable regulations, are not subject to capital requirements and still bring a satisfactory level of interest income. Regarding the sources of funds, the Bank recorded a decline in total deposits (especially retail deposits) primarily as a result of the closure of two branches. Therefore, the Bank reduced excessive and unnecessary liquidity reserves, which resulted in significant reduction of interest expenses.

As at 31 December 2021, the Bank's regulatory capital amounted to HRK 114,471 thousand. As at 31 December 2021, the total capital ratio was 15.90%.

On 3 February 2020, the Croatian Deposit Insurance Agency, as the owner of the Bank, issued a call for the procurement of legal advisory and support services in the process of the sale of 100% of shares of Croatia Banka d.d., Zagreb. In accordance with the Bank's planned sales process, a virtual data room was set up, which was opened on 10 August 2020 and closed on 26 October 2020. Interested investors submitted their binding offers by 30 November 2020.

1. GENERAL INFORMATION (continued)

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), based on the historical cost convention, except for financial instruments initially recognised at fair value and for changes in the fair value of financial instruments classified as fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI"). The principal accounting policies applied in the preparation of these financial statements are presented below. These policies have been applied consistently to all periods presented, unless otherwise stated, and are explained in Note 2.

Basis of measurement

The financial statements have been prepared on the fair value basis for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are recognised at amortised or historical cost.

Functional and presentation currency

The financial statements have been prepared in HRK, which is the primary currency of the economic environment in which the Bank operates ("the functional currency"), and amounts are rounded to nearest thousand. The official exchange rate as at 31 December 2021 was HRK 7.517174 for EUR 1 (2020: HRK 7.536898) and HRK 6.643548 for USD 1 (2020: HRK 6.139039).

First-time adoption of IFRS

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

Impact of the Covid-19 pandemic

With regard to the issued circular letters of the Croatian National Bank regarding the Covid-19 pandemic, during 2021 Croatia banka d.d. has also adjusted its operations to fully comply with the recommendations of these circular letters.
In accordance with the CNB's circular letters, until 31 March 2021, the Bank has been approving moratoria and Covid-19 restructuring arrangements to a target group of clients who met the criteria from the CNB circular letters defining uniform methods of deferring the principal and/or interest, i.e. annuities. Regarding the impact of the Covid-19 pandemic, the Bank additionally supplemented the criteria for determining increased credit risk, i.e. its classification into risk sub-category A2 (Stage 2). In addition to the regular criteria for transition to Stage 2, the Bank applied an additional criterion where all exposures granting a Covid-19 moratorium or restructuring are classified as Stage 2, provided that the party was not previously in a higher risk category. In addition to clients who had difficulties in meeting their financial obligations due to the Covid-19 pandemic, i.e. clients who were granted preferential treatment in accordance with the CNB circular letters until 31 March 2021, the Bank decided to restructure certain clients as of 31 March 2021. This resulted in an increased exposure at default compared to previous periods, but did not call into question the Bank's going concern.

1. GENERAL INFORMATION (continued)

Impact of macroeconomic projections on the expected credit loss model

The Bank uses expert scoring to analyse the correlation of historical time series of different macroeconomic factors (GDP change rate and employment/unemployment rate) and default rate in its sub-portfolios, and in a broader sense tests the dependence of migration probabilities on the levels and changes in macroeconomic factors. For this purpose, the Bank sets and predicts scenarios of changes in macroeconomic variables as well as changes in non-performing loans at the level of the banking system. The Bank uses a baseline and pessimistic scenario of changes in macroeconomic variables. Since no change in the unemployment rate has been defined for the pessimistic scenario, the Bank takes a 0.5 p.p. higher change in the unemployment rate compared to the baseline scenario – baseline scenario 3 p.p., pessimistic scenario 3.5 p.p. The expert score is calculated as follows:

1) The selected macroeconomic variables are taken for the current and following year based on selected macroeconomic scenarios,
2) Total points for each scenario are calculated as follows:
   a. Each variable is scored per year (weights are used for total scoring: GDP-70%, unemployment-30%)
   b. The weighted number of points for the scenario is calculated,
3) The final score is calculated by weighing a portion of the scenario.

The expert score was calculated for two periods (2020 and 2021), whereby for the total number of points 75% is taken from first year and 25% from the second year. GDP growth of 3.5% is projected for 2021, while real growth was significantly higher. The final score (number of points) is mapped according to the change in PD as follows:

Mapping points according to change in PD	Delta PD
75 to 100 points	30.00%
50 to 75 points	22.50%
25 to 50 points	15.00%
12.5 to 25 points	7.50%
0 to 12.5 points	3.75%
-12.5 to 0 points	-1.88%
-25 to -12.5 points	-3.75%
-50 to -25 points	-7.50%
less than -50 points	-15.00%

It is assumed that the change in NPL in the event of a stronger recession scenario at the level of the banking industry average was 58% over a period of one year. The Bank has rounded the change to 60%, but takes 50% compared to the expected change in non-performing loans in the system, as the negative stress scenario does not include measures by the Government and the CNB to mitigate negative developments. Consequently, the maximum change in the PD rate was defined at 30%, with the maximum increase being 30%, while the maximum decrease was set at 15%. Following the applied methodology, combining the mentioned scenarios and expectations, the Bank increased the basic PD calculated on the basis of the historical data model by 22.5%. During 2021, the Bank conducted back-testing of the expected credit loss model and decided to recognise the back-testing results in its records (additional increase in value adjustments in the amount of HRK 4,287 thousand).

Other

During 2021, the Bank did not perform any impairment of the securities portfolio. During the year, market prices decreased slightly, but the Bank actively manages its securities portfolio. The Bank did not have significant impairments of foreclosed tangible assets. The Covid-19 pandemic had an impact on the time shift of the planned sale of these assets. The Covid-19 pandemic did not result in a significant increase in provisions for litigation against the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2021, have been endorsed by the EU, but did not have a material impact on the Bank:

- COVID-19-Related Rent Concessions – Amendments to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform. End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The IBOR reform did not have a material impact on the Bank as it has a small number of derivative instruments covered by the transition to another interbank rate but their impact on the financial statements is immaterial.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

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

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

Unless otherwise described above, the new standards and interpretations are either not relevant or not expected to have a material impact on the Bank's financial statements.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

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

Unless otherwise described above, the new standards and interpretations are either not relevant or not expected to have a material impact on the Bank's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies provided below have been consistently applied to all the years presented, unless otherwise stated.
Where the accounting policies are consistent with the accounting principles of International Financial Reporting Standards (hereinafter: "IFRS" or "Standards"), the Bank may refer to specific Standards in the description of the its accounting policies. Unless otherwise stated, these Standards have been applied as at 31 December 2021.

2.1. Financial assets and liabilities

Measurement techniques

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, net of prepayments, increased or decreased by the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the amount of maturity and, in the case of financial assets, less the amount of the provision.

An effective interest rate is the rate used to discount the expected future proceeds or payments over the expected life of a financial asset or financial liability of the gross carrying amount of financial assets or the amount of the amortised cost of the financial liability. The calculation does not take into account the expected credit loss and includes transaction costs, premiums or discounts, fees and other payments and proceeds that are considered an integral part of the effective interest rate. An audit of expected future cash flows is carried out using the original effective interest rate.

Interest income and expense

Interest income is accounted for using the effective interest rate method applied to the gross carrying amount of financial assets, except for:

- Purchased or originated credit-impaired financial assets. For such assets, a credit-adjusted effective interest rate is used,
- Financial assets that are not purchased or originated credit-impaired financial assets but that subsequently became credit-impaired financial assets. For such assets, the effective interest rate is applied to the amortised cost of such assets in subsequent reporting periods.

The Bank calculates interest income on a net basis for financial assets allocated to Stage 3 credit risk.

Initial recognition and measurement

The Bank recognises a financial asset or liability in the statement of financial position only if it becomes a party to the contractual provisions of the instrument.
The Bank initially recognises financial assets (other than trade receivables) or financial liabilities at their fair value, which, in the case of financial assets or financial liabilities not designated at fair value through profit or loss, increases or decreases by transaction costs that may be directly attributed to the acquisition or issue of a financial asset or financial liability.

FINANCIAL ASSETS

The Bank classifies financial assets into three basic categories:

- assets subsequently measured at amortised cost,
- assets subsequently measured at fair value through other comprehensive income, and
- assets subsequently measured at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Financial assets and liabilities (continued)

Financial assets measured at amortised cost are assets whose purpose is to collect cash flows that are solely payments of principal and interest. The carrying amount is adjusted for expected credit losses. Interest income is accounted for by applying the effective interest rate.
Financial assets measured at fair value through other comprehensive income are assets whose purpose is to collect contractual cash flows and to sell financial assets where cash flows of an asset are solely principal and interest payments. Changes in the carrying amounts are recognised in other comprehensive income, except for gains or losses on impairment, interest income and exchange rate differences that are recognised in the income statement. Upon derecognition of these financial assets the accumulated gains and losses previously recognised in other comprehensive income are reclassified from equity to profit and loss. Financial assets measured at fair value through profit or loss are assets that are not measured at amortised cost or at fair value through other comprehensive income.

Business model

The Bank decides on a business model at a level that reflects the method of joint management of financial asset groups (portfolios) to achieve a specific business objective. In assessing the business model for managing financial assets the Bank relies on judgments based on the following information:

- Whether the strategic focus of management is to achieve interest income, in particular maintaining the interest rate profile, adjusting the maturity of financial assets to the maturity of the liabilities that are the source of the asset or the realisation of cash flows by selling assets,
- How to determine and report on portfolio performance,
- Risks affecting the business model's performance and how these risks are managed,
- How the managers are rewarded,
- Frequency, volume and time of sales in previous periods.

With the hold-to-collect business model for the purpose of collecting contracted cash flows or collecting cash flows and selling, the Bank estimates whether the cash flows of a financial instrument represent solely payments of principal and interest (SPPI test).

Impairment

The Bank recognises impairment allowances for the expected credit losses for the financial assets measured at amortised cost or measured at fair value through other comprehensive income and for the exposures arising from contingencies. At the reporting date, the Bank reviews whether there has been a change in the credit risk of the financial instrument after initial recognition and recognises the impairment gains or losses in profit and loss in the amount of expected losses or gains.
The measurement of expected credit losses reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money and
- reasonable and supportable information on the reporting date that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Financial assets and liabilities (continued)

Debt modifications

The Bank sometimes modifies the contracted cash flows of customer loans. When this happens, the Bank reviews whether the new conditions differ significantly from the terms of the contract initially agreed upon. The Bank then takes into account different circumstances:

- If a debtor has financial difficulties, does the modification only reduce the contracted cash flows to the amounts that the debtor expects to be able to pay,
- Has a new significant term been contracted affecting the repayment of the loan, which has a significant impact on the risk profile of the loan,
- A more significant extension of the loan repayment period when the borrower has no financial difficulties,
- Significant changes in the interest rate,
- Changes in the original currency of the loan,
- Adding collaterals, other security instruments or credit enhancement instruments that have a significant impact on credit risk.

If the terms of the loan have changed considerably, the Bank derecognises the original loan and recognises a new loan at fair value and calculates the new effective interest rate on the loan. The date of the new contract is considered to be the date of initial recognition for the purposes of the calculation of the impairment, including any need for a significant increase in credit risk. Any difference in the carrying amount of the loan will be recognised in the income statement as a gain or loss on derecognition.

Derecognition other than on modification

Financial assets or a portion thereof, are derecognised when the Bank loses the rights to the cash flows from a financial asset or when it transfers the financial asset in a transaction by which substantially all the risks and rewards of ownership have been transferred to another entity.
The Bank enters into transactions where it retains contractual rights to cash flows from assets, but assumes a contractual obligation to pay those cash flows and transfers all of the significant risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

- has no obligation to make payments unless it collects equivalent amounts from the assets,
- is prohibited from selling or pledging the assets, and
- has an obligation to remit any cash it collects from the assets without material delay.

FINANCIAL LIABILITIES

Classification and subsequent measurement

The Bank classifies the financial liabilities and subsequently measures them at amortised cost, except for

- Financial liabilities (including derivatives) designated at fair value through profit or loss.
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach.
- Financial guarantee contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Financial assets and liabilities (continued)

Derecognition of financial liabilities

The Bank derecognises financial liabilities only when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.
The difference between the carrying amount of a financial liability (or a portion of a financial liability) that has been met or transferred to another party and the consideration paid, including any non-cash transferred assets or liabilities assumed, is recognised in the income statement.

Contingent liabilities and commitments

Financial guarantees are contracts that require the Bank to make specific payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. In the ordinary course of business, the Bank enters into arrangements by which it assumes contingent liabilities maintained on off-balance-sheet accounts and that primarily include guarantees, letters of credit and undrawn loan commitments and limits on lines of credit. Such financial commitments are recognised in the Bank’s statement of financial position if and when they become payable.
Financial guarantees are initially recognised at fair value based on the amount of the consideration received that is amortised on a straight-line basis over the term of the guarantee. At the end of each reporting period, financial guarantees are measured at the higher of: a) the amount of credit loss determined based on the expected loss model and b) the remaining unamortised balance of the amount initially recognised.

2.2. Income tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case the tax is recognised in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each financial reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

2.3. Cash and cash equivalents

Cash and cash equivalents include cash and current accounts with the Croatian National Bank with an original maturity of up to 90 days and with other banks, deducted for provision for impairment on a collective basis and uncollectible amounts, and items in process of collection.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Property and equipment

Items of property and equipment are recognised at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to allocate the cost of assets to their residual values over their estimated useful lives. Land and assets under construction are not depreciated.
Assets' residual values, depreciation method and estimated useful life are reviewed at each reporting date and adjusted if appropriate. The carrying value of an asset is written down immediately to its recoverable amount if the asset's carrying amount exceeds its recoverable amount. Profits and losses on disposals are determined by comparing the amount collected and the carrying amount, and are included in the profit and loss account.

Tangible assets are depreciated on a straight-line basis over their estimated useful lives as follows:

	2021	**2020**
Buildings	2.50% - 5%	2.50% - 5%
Computers	16.67% - 25%	25%
Furniture and equipment	10% - 25%	10% - 25%
Vehicles	20%	20%
Other not listed tangible assets	5% - 20%	5% - 20%

2.5. Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as an intangible asset if it satisfies all the requirements in accordance with IAS 38 "Intangible Assets”. Amortisation is calculated on a straight-line basis over the estimated useful lives of intangible assets.

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2021	**2020**
Intangible assets (other)	10% - 20%	10% - 20%
Intangible assets - *software*	16.67% - 25%	20% - 25%

2.6. Foreclosed assets

For assets acquired in lieu of uncollected receivables the Bank assesses the marketability and only marketable assets, the value of which can be measured reliably, are recognised. Such assets are stated at the lower of the cost of related outstanding receivables and the current fair value of that asset. The Bank’s intention is to sell such assets as soon as possible (such assets are not amortised). After initial recognition, foreclosed assets are subsequently measured at the lower of cost and fair value less costs to sell.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Assets held for sale

Tangible assets repossessed in exchange for uncollected receivables are stated in the statement of financial position within assets held for sale if the following conditions are met:

- there is a sales plan and activities are carried out to find a buyer,
- the assets are ready for sale in the present state,
- sales are highly probable,
- assets offered for sale at a reasonable price, or when the price of an asset is acceptable in relation to its market value, and it is unlikely that there will be significant deviations from the sale or resignation plan,
- sales should be completed within one year from the date of classification, unless the delay is caused by events or circumstances beyond the control of the Bank and there is sufficient evidence that it will remain in compliance with the asset sales plan.

In cases where due to the aggravating circumstances of sales caused by events or circumstances beyond the control of the Bank and there is sufficient evidence that the Bank has remained consistent with its sales plan, tangible assets repossessed in exchange for uncollected receivables will continue to be recognised, measured and disclosed as an asset held for sale.

This asset category is initially recognised at fair value, net of estimated expected selling costs.

After initial recognition, these assets are subsequently measured at the lower of the net carrying amount and fair value less costs to sell.
If the above conditions are not met, the Bank's tangible assets foreclosed in exchange for uncollected receivables are initially recognised as foreclosed assets in accordance with International Accounting Standard 2 Inventories.

2.8. Investment property

Investment property is property held by the Bank either to earn rentals or for capital appreciation purposes. Investment property is initially recognised at cost and subsequently measured at fair value. The Bank annually conducts fair value measurement on an income basis, which is performed by an independent valuer. The purchase cost is the amount of money or cash equivalents paid or the fair value of other consideration paid for the purpose of acquiring such property. Transaction costs are included in the initial measurement. The Bank conducts fair value measurement on an annual basis.

2.9. Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.
Property, plant and equipment and intangible assets are reviewed for impairment in the circumstances that indicate that the carrying amount of an asset may not be recoverable.
When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and intangible assets carried at acquisition cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and if it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated.
Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. Management determines the adequacy of the provisions based upon reviews of individual items, current economic conditions, the risk characteristics of the various categories of transactions, as well as other relevant factors.
When an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed. Provisions are released only for those costs in respect of which provisions are recognised at inception.

2.11. Employee benefits

The Bank makes payments to the mandatory pension funds on behalf of its employees as required by law. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.
The Bank recognises a provision for bonuses where there is a constructive obligation resulting from a contract or past practice. Furthermore, the Bank recognises accrued benefits on the basis of annual vacation days outstanding at the date of the financial statements.
In calculating provisions for termination benefits and jubilee rewards, expected future cash flows arising from the liabilities are discounted, using discount rates that, in the opinion of management, best reflect the time value of money.

2.12. Share capital and reserves

Share capital is denominated in HRK at nominal value.

2.13. Accumulated losses

If the Bank recognises a loss for the financial year, it is transferred to accumulated losses.

2.14. Fee and commission income and expense

Fee and commission income comprises mainly fees received from customers for loans, guarantees, letters of credit and other services provided by the Bank. Fees are recognised as income upon the maturity date of services.
Fee and commission expense consists of fees paid to licensed banks for payments services performed in the foreign exchange, as well as for the Financial Agency services (FINA) for domestic payments.

2.15. Foreign currencies

Transactions in foreign currencies are translated into HRK applying the middle exchange rate of CNB at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate defined at the financial statement's date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the transaction date and are not retranslated at the date of the statement of financial position.
Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the securities. Exchange differences are recognised in the income statement as part of the foreign exchange gains or losses on translation of monetary assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Leases

At the inception of the contract, the Bank assesses whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Bank as lessor

The accounting treatment of leases in which the Bank is the lessor distinguishes between operating and finance leases. Leases in which the Bank does not transfer a significant portion of the risks and rewards of ownership are classified as operating leases. Lease income from operating leases is recognised on a straight-line basis over the lease term and included in the income statement. The same principle applies to direct costs attributable to negotiating and arranging an operating lease.

Bank as lessee

Lease liabilities

Lease liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable payments based on an index and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of office space and equipment leases of the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the Bank's incremental borrowing rate is used, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- uses an approach that applies a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments presented as short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Leases (continued)

Bank as lessee (continued)

Right-of-use assets

The Bank leases business premises and cars. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.
Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made before the commencement date less any lease incentives received,
- any initial direct costs, and
- any costs to be incurred to restore the underlying asset to the original condition required by the terms and conditions of the lease.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life. Right-of-use assets are depreciated on a straight-line basis over their estimated useful lives as follows:

	2021
Buildings (office space)	6.8%-50%
Cars	20%
Equipment	50%

2.17. Borrowings

Borrowings are recognised initially at fair value, net of associated costs. Subsequent measurement is carried at amortised cost and the difference between proceeds net of transaction costs, and the amount payable at maturity is recognised in the income statement during the term of the borrowing as interest expense.

2.18. Activities for and on behalf of third parties

The Bank manages funds for and on behalf of corporate customers. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services provided the Bank charges a fee which is recognised in the statement of profit or loss. Based on these charges, in 2021 the Bank generated revenue in the amount of HRK 158 thousand.

2.19. Accounting estimates and judgments in applying accounting policies

In preparing the financial statements, the Management Board is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent liabilities at the reporting date, as well as amounts of income and expense for the period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Accounting estimates and judgments in applying accounting policies (continued)

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they are incurred if affecting only that period or the period in which they are incurred and future periods if they impact current and future periods. An estimate of impairment losses of a portfolio exposed to credit risk and an estimate of fair value of collateral in the form of real estate as an integral part of the estimate, represent the most significant source of estimation uncertainty. This and other key sources of estimation uncertainty (provisions for legal disputes), that carry considerable risk of possible significant adjustments of assets' and liabilities' carrying value in the next business year, are described below.

2.20.1. Credit losses on loans and advances

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need to recognise credit losses on on-balance sheet and off-balance sheet credit risk exposures is assessed on a quarterly basis. Credit losses are generally charged to the carrying amount of loans and receivables issued to retail and corporate customers and as provisions/credit losses for liabilities and charges arising from off-balance sheet risk exposures to customers, which mostly take on the form of approved, but not utilised loans, guarantees and letters of credit. In addition to individually identified impairment losses, the Bank also monitors and recognises credit losses on an ongoing basis. Credit losses on exposures to customers, together with the gross value of loans and advances which credit losses have been recognised on an individual basis, are summarised below:

	31 December 2021	31 December 2020
Credit losses on loans and advances to customers	67,959	66,942
Credit losses for off-balance sheet credit exposure	248	80
Total credit losses	**68,207**	**67,022**
Gross value of exposures for which credit losses are calculated on an individual basis	161,034	144,192

In assessing credit losses of portfolios that are assessed on a portfolio basis, the Bank seeks to collect sufficient reliable information used in the models and key model assumptions that form the basis for recognising credit losses on a portfolio basis. For more details please refer to Note 32.1. Credit risk.

2.20.2. Legal disputes

The Bank individually assesses all legal disputes against the Bank. The assessment is conducted by the Bank's Legal Affairs department. As set out in Note 31, the Bank has provided for HRK 45,845 thousand in principal and interest on liabilities for legal disputes (2020: HRK 44,962 thousand). These amounts represent the Bank's best estimate of losses on legal disputes.

2.20.3. Property

Investment property is initially carried at cost. At subsequent measurement of investment property, the Bank applies the fair value model. The Bank conducts measurement of fair value on an income basis annually by an independent valuer.
The sensitivity analysis with regard to changes in property prices (increase or decrease in market price by 1%) is disclosed in Note 17 Investment property and 19 Foreclosed assets.

3. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

3.1. Interest income calculated using the effective interest method by type of customer

	2021	in thousands of HRK 2020
Retail	26,128	26,504
Corporate	22,929	23,822
Government units	950	1,425
Banks and other financial institutions	212	245
Other organisations	19	28
Total	**50,238**	**52,024**

Interest income comprises income from placements in default in the amount of HRK 2,493 thousand (2020: HRK 2,936 thousand) of which HRK 1,925 thousand (2020: HRK 2,343 thousand) relates to corporate transactions, and the remaining HRK 568 thousand (2020: HRK 593 thousand) relates to retail transactions.

3.2. Interest income calculated using the effective interest method by portfolio

in thousands of HRK

	2021	2020
Financial assets at amortised cost	49,276	51,308
Financial assets at fair value through other comprehensive income	962	716
Total	**50,238**	**52,024**

4. INTEREST EXPENSE

4.1. Interest expense by type of customer

in thousands of HRK

	2021	2020
Retail	2,858	3,321
Non-residents	698	700
Croatian National Bank	416	687
Corporate	261	287
Banks and other financial institutions	109	154
Government units	53	67
Leases	31	39
Other organisations	22	36
Total	**4,448**	**5,291**

4.2. Interest expense by portfolio

in thousands of HRK

	2021	2020
Financial liabilities measured at amortised cost	4,448	5,291
Total	**4,448**	**5,291**

5. FEE AND COMMISSION INCOME

5.1. Income from fees by type of customer

in thousands of HRK

	2021	2020
Corporate	5,275	4,552
Retail	4,644	4,052
Financial institutions	1,003	1,308
Non-residents	442	272
Non-profit institutions	267	246
Government units	131	147
Total	**11,762**	**10,577**

5.2. Income from fees by type

in thousands of HRK

	2021	2020
Payment transaction fees	3,690	3,058
Fees from guarantees and letters of credit	1,734	1,563
Account maintenance fees	2,169	1,995
Online banking fees	1,449	1,164
Income from fees - sales of third-party products	562	942
Card transaction fees	764	561
Brokerage and custodial fees	159	170
Product bundles	102	-
Other commissions	1,133	1,124
Total	**11,762**	**10,577**

6. FEE AND COMMISSION EXPENSE

6.1. Fee and commission expense by type of customer

in thousands of HRK

	2021	2020
Domestic clients	(1,690)	(1,826)
Service fees and commissions to FINA	(1,276)	(1,267)
Foreign banks	(137)	(129)
Republic of Croatia	(94)	(92)
Total	**(3,197)**	**(3,314)**

6. FEE AND COMMISSION EXPENSE (CONTINUED)

6.2. Fee and commission expense by type

in thousands of HRK

	2021	2020
Credit card commission	(1,012)	(1,467)
FINA's non-cash and cash payment services (customers)	(1,277)	(1,266)
Financial institutions service costs	(662)	(401)
Authorised exchange office services	(69)	(59)
Other commissions	(177)	(121)
Total	**(3,197)**	**(3,314)**

7. OTHER INCOME

7.1. Rental income

in thousands of HRK

	2021	2020
Rental income	4,714	4,554

In 2021, the Bank realised rental income from investment property in the amount of HRK 4,237 thousand (2020: HRK 4,237 thousand).

7.2. Other operating income

in thousands of HRK

	2021	2020
Gain on sale of property, plant and equipment and foreclosed assets	8,113	6,214
Gain on fair value adjustment of investment property	-	280
Other income	3,181	1,449
Total	**11,294**	**7,943**

8. OTHER OPERATING EXPENSES

	2021	in thousands of HRK 2020
Net salaries	(15,363)	(15,076)
Contributions, taxes and surtaxes	(4,291)	(5,571)
Pension contributions	(5,183)	(4,299)
Other staff costs	(2,571)	(2,169)
Provisions for employee benefits (Note 26)	(119)	(295)
Total staff costs	**(27,527)**	**(27,410)**
Depreciation and amortisation (Note 18)	(2,421)	(3,190)
Total depreciation and amortisation	**(2,421)**	**(3,190)**
Material and services	(13,870)	(13,503)
Deposits insurance premium expense	-	(4,258)
Rental expenses	(2,293)	(2,642)
Judicial and administrative fees	(86)	(268)
Marketing	(390)	(265)
Net book amount of non-current tangible assets	(5,065)	(3,676)
Other	(1,700)	(1,677)
Total other operating expenses	**(23,404)**	**(26,289)**
Total	**(53,352)**	**(56,889)**

As at 31 December 2021, the Bank had 164 employees (2020: 166 employees).

Staff costs include HRK 5,183 thousand (2020: HRK 4,299 HRK thousand) of prescribed pension contributions paid into mandatory pension funds. Contributions are determined at a certain percentage of employees' gross salaries. Contributions are calculated as a percentage of employees' gross salaries.
In 2021, consultants' services amounted to HRK 556 thousand (2020: HRK 713 thousand), and relate to the audit of annual reports, IT systems, semi-annual reports and other consultancy services.
Savings deposit insurance costs decreased due to the decision of the Croatian Deposit Insurance Agency (CDIA) to terminate the payment of the deposit insurance fee due to achieving the target of 1 + 1.5% and 2.5% of the funds, respectively.

9. CREDIT LOSS ALLOWANCES

	in thousands of HRK 2021	2020
Credit losses on interest receivables (Note 16.2)	313	(470)
Credit losses on securities	38	826
Credit losses on other assets	(425)	98
Credit losses on loans and advances to customers (Note 16.2)	(8,565)	(7,179)
Credit losses on deposits with banks	(24)	212
Total credit loss allowances	**(8,663)**	**(6,513)**

10. PROVISIONS AND IMPAIRMENT

	2021	2020
Impairment of foreclosed assets (Note 19)	(159)	(1,073)
Income from collection of loans written-off in previous years	63	130
Provisions for contingencies (Note 26)	(1,492)	(1,393)
Provision for legal disputes against the Bank	(1,164)	900
Other provisions	(645)	(306)
Total provisions and impairment	**(3,397)**	**(1,742)**

11. INCOME TAX

in thousands of HRK

	2021	2020
Current income tax	-	-
Deferred income tax	2,120	67
Total income tax	**2,120**	**67**

in thousands of HRK

	2021	2020
Profit before tax	**7,204**	**4,982**
Income tax (18%)	1,297	897
Effect of items increasing tax base	438	547
Effect of items decreasing tax base	(502)	(429)
Utilisation of tax losses carried forward for which no deferred tax assets were recognised	887	(948)
Income tax	**2,120**	**67**
Effective income tax rate	**29.43%**	**1.34%**

Movement in tax losses carried forward

in thousands of HRK

	2021	2020
Tax losses carried forward from the previous period	**(37,725)**	**(42,994)**
Utilisation of tax losses	6,847	5,269
Expiry of tax losses available for carry forward	-	-
Tax loss available for carry forward in future periods	**(30,878)**	**(37,725)**
Deferred tax assets at 18% (2020: 18%)	(5,558)	(6,791)
Recognised deferred tax assets	(2,120)	-
Unrecognised deferred tax assets	(3,345)	(6,791)

11. INCOME TAX (CONTINUED)

Tax losses expire as follows:

in thousands of HRK

Tax loss expiry	Tax loss
2022	19,738
2023	17,995
Total	**37,733**

As at 31 December 2021, deferred tax assets arising from tax losses carried forward were recognised in the amount of HRK 2,213 thousand. This amount arises from its estimated utilisation in future periods, which is based on the long-term financial plan.

Movements in deferred tax assets

in thousands of HRK

	Deferred fee income included in effective interest rate on given loans	Unrealised fair value of financial assets through OCI	Amortisation exceeding allowable tax rates	Tax loss	Total
At 1 January 2020	**821**	**(211)**	**83**	**-**	**693**
Recognised in profit or loss	(67)	-	-	-	(67)
Recognised in other comprehensive income	-	116	-	-	116
At 31 December 2020	**754**	**(95)**	**83**	**-**	**742**
Recognised in profit or loss	(69)	-	(24)	2,213	2,120
Recognised in other comprehensive income	-	411	-	-	411
At 31 December 2021	**685**	**316**	**59**	**2,213**	**3,273**

12. CASH

in thousands of HRK

	31 December 2021	31 December 2020
Giro account	139,053	152,452
Cash on hand		
- HRK	11,107	12,787
- foreign currency	6,101	7,394
Cash in foreign currency accounts with domestic banks	58,876	24,739
Cash in foreign currency accounts with foreign banks	4,206	3,699
Cash in foreign currency accounts with domestic financial institutions	90	88
Expected credit losses	(234)	(206)
Total	**219,199**	**200,953**

13. RECEIVABLES FROM THE CROATIAN NATIONAL BANK

in thousands of HRK

	31 December 2021	31 December 2020
Reserve requirement		
- HRK	83,763	85,951
Expected credit losses	*(99)*	*(102)*
Total	**83,664**	**85,849**

The CNB determines the reserve requirement for banks, which is deposited with the CNB and held in the form of other liquid receivables.

The reserve requirement ratio as at 31 December 2021 was 9% (2020: 9%) for HRK and foreign currency deposits, borrowings and issued debt securities.

At 31 December 2021, the HRK-denominated portion of the reserve requirement with the CNB amounted to 70% (2020: 70%), and the foreign-currency denominated portion 0% (2020: 0%), while the remaining 30% (2020: 30%) was held in the form of other liquid receivables. This includes the foreign currency portion of the required reserve held in HRK. The foreign-currency portion of the required reserve is maintained through daily balances of foreign-currency receivables on the Target 2 foreign-currency account with the Croatian National Bank as well as on accounts with foreign banks with appropriate ratings. The minimum amount of the foreign-currency required reserve on the CNB Target2 reserve account is 2%, whereas 75% of the foreign-currency portion of the required reserve is included in the calculated HRK-denominated required reserve portion and maintained in HRK.

14. PLACEMENTS WITH BANKS

in thousands of HRK

	31 December 2021	31 December 2020
Deposits with foreign banks	17,685	15,516
Deposits with domestic banks	424	425
Expected credit losses	-	-
Total	**18,109**	**15,941**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in thousands of HRK

	31 December 2021	31 December 2020
Foreign government bonds	103,618	139,649
Bonds of the Republic of Croatia with a currency clause	60,748	86,900
Treasury bills with a currency clause of the Republic of Croatia	82,742	90,443
HRK-denominated treasury bills of the Republic of Croatia	115,053	84,972
HRK-denominated bonds of the Republic of Croatia	9,002	8,991
Shares	196	494
Foreign corporate bonds	232	227
Expected credit losses	*(148)*	*(126)*
Accrued interest	506	676
Total	**371,949**	**412,226**

Changes in financial assets at fair value through other comprehensive income during the year are presented in the table below:

in thousands of HRK

	Treasury bills	Bonds	Shares	Accrued interest	TOTAL
At 1 January 2021	**175,415**	**235,641**	**494**	**676**	**412,226**
Purchase	197,698	-	-	-	197,698
Change in fair value	-	(2,243)	-	-	(2,243)
Sale	(175,817)	(56,043)	-	-	(231,860)
Other (write-off, foreign exchange differences)	403	(3,807)	(298)	(170)	(3,872)
At 31 December 2021	**197,699**	**173,548**	**196**	**506**	**371,949**

	Treasury bills	Bonds	Shares	Accrued interest	TOTAL
At 1 January 2020	**139,298**	**310,266**	**493**	**1,988**	**452,045**
Purchase	175,766	180,053	-	-	355,819
Change in fair value	-	(644)	-	-	(644)
Sale	(139,010)	(251,431)	-	-	(390,441)
Other (write-off, foreign exchange differences)	(639)	(2,603)	1	(1,312)	(4,553)
At 31 December 2020	**175,415**	**235,641**	**494**	**676**	**412,226**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

As at 31 December 2021, the Bank has pledged, based on received HRK 140,000 thousand of structured loans with financial insurance by the Croatian National Bank and HRK 15,034 thousand of repo loans received from Erste&Steiermärkische Bank (2020: HRK 140,000 thousand of structured loans received from the Croatian National Bank and HRK 36,931 thousand of repo loans received from Erste&Steiermärkische Bank) the treasury bills in the total amount of HRK 164,151 thousand (2020: HRK 187,371 thousand of treasury bills and government bonds) (Note 24).
There were no securities received as pledge as at 31 December 2021, since there were no placements in repo loans (2020: no pledges).

Financial instruments carried at fair value are categorised into three levels of the IFRS fair value hierarchy, as follows:

- Level 1 - instruments that are valued using quoted prices in active markets, liquid markets. These instruments include: liquid debt securities that are traded on liquid stock markets and shares in investment funds.
- Level 2 - instruments that are valued using valuation techniques that use observable market data. These are instruments whose fair value is determined in the amount of similar instruments traded in active markets, or where all the inputs used for valuation techniques are observable on the market.
  These instruments include less liquid debt securities that are valued based on a model that uses level 1 input.
- Level 3 - instruments measured using valuation techniques that are not based on observable market data. These are instruments whose fair value cannot be determined directly by reference to observable market information and for whose value calculation different valuation techniques are used. These instruments include illiquid debt securities and illiquid equity securities.

The following note shows net financial assets categorised according to the stated fair value hierarchy:

in thousands of HRK

	31 December 2021				31 December 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Foreign currency bonds	104,178		-	104,178	140,354	-	-	140,354
HRK-denominated bonds	69,876			69,876	95,963			95,963
Treasury bills		197,699	-	197,699	-	175,415	-	175,415
Shares	-	-	196	196	-	-	494	494
Total	**174,054**	**197,699**	**196**	**371,949**	**236,317**	**175,415**	**494**	**412,226**

16. LOANS AND ADVANCES TO CUSTOMERS

16.1. Analysis by type of customer

Analysis by type of customer (including accrued interest and provision for interest):

in thousands of HRK

	31 December 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL
Retail								
Cash loans	196,189	23,468	13,082	232,739	204,343	34,206	9,235	247,784
Housing loans	49,076	5,899	1,765	56,740	45,023	9,744	587	55,354
Loans for agriculture	40,561	3,143	3,916	47,620	37,118	3,001	4,516	44,635
Other loans	33,167	1,944	3,225	38,336	15,141	5,125	2,510	22,776
Overdrafts on transaction accounts	16,797	518	1,518	18,833	16,329	1,364	1,831	19,524
Mortgage loans	14,106	740	1,282	16,128	11,948	1,425	1,189	14,562
Loans for tourism	42	3,643	6,558	10,243	106	7,888	3,142	11,136
Lombard loans	8,076	185	-	8,261	8,030	568	-	8,598
Margin loans	4,211	-	-	4,211	4,669	2,000	-	6,669
Total retail loans	**362,225**	**39,540**	**31,346**	**433,111**	**342,707**	**65,321**	**23,010**	**431,038**
Expected credit losses (principal)	*(5,940)*	*(1,444)*	*(5,987)*	*(13,371)*	(5,241)	(1,713)	(5,827)	(12,781)
Expected credit losses (interest)	-	-	*(204)*	*(204)*	-	-	(161)	(161)
Total expected credit losses	*(5,940)*	*(1,444)*	*(6,191)*	*(13,575)*	**(5,241)**	**(1,713)**	**(5,988)**	**(12,942)**
Accrued interest	1,661	221	299	2,181	1,628	417	161	2,206
Total retail loans, net	**357,946**	**38,317**	**25,454**	**421,717**	**339,094**	**64,025**	**17,183**	**420,302**
Corporate								
Syndicated loan	45,699	325,661	-	371,360	55,669	330,974	-	386,643
Investment loans	70,229	23,022	63,797	157,048	41,227	51,022	60,054	152,303
Working-capital loans	61,450	4,578	25,228	91,256	48,745	26,993	18,893	94,631
Lombard loans	1,434	45,856	-	47,290	385	46,018	-	46,403
Other loans	3,453	4,418	33,937	41,808	7,671	6,690	44,304	58,665
Overdrafts on transaction accounts	7,664	250	2,762	10,676	10,783	3,626	1,912	16,321
Loans for agriculture	1,557	135	1,046	2,738	3,159	1,222	-	4,381
Loans for payments under guarantees	-	-	148	148	-	-	-	-
Total corporate loans	**191,486**	**403,920**	**126,918**	**722,324**	**167,639**	**466,545**	**125,163**	**759,347**
Expected credit losses (principal)	(3,026)	(1,828)	(64,797)	(69,651)	(1,508)	(2,224)	(64,253)	(67,985)
Expected credit losses (interest)	-	-	(115)	(115)	-	-	(432)	(432)
Total expected credit losses	**(3,026)**	**(1,828)**	**(64,912)**	**(69,766)**	**(1,508)**	**(2,224)**	**(64,685)**	**(68,417)**
Accrued interest	418	1,959	204	2,581	315	2,364	432	3,111
Total corporate loans, net	188,878	404,051	62,210	655,139	**166,446**	**466,685**	**60,910**	**694,041**
Total loans (gross)	**555,790**	**445,640**	**158,767**	**1,160,197**	**512,289**	**534,647**	**148,766**	**1,195,702**
Total credit losses on loans	**(8,966)**	**(3,272)**	**(71,103)**	**(83,341)**	(6,749)	(3,937)	(70,673)	(81,359)
Total loans and advances to customers, net	**546,824**	**442,368**	**87,664**	**1,076,856**	**505,540**	**530,710**	**78,093**	**1,114,343**

As at 31 December 2021, the gross exposure arising from customers in default was HRK 158,769 thousand (2020: HRK 148,766 thousand), and the associated credit loss amounted to HRK 71,103 thousand (2020: HRK 70,673 thousand).

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

16.2. Changes in credit losses

Changes in credit losses are presented as follows:

in thousands of HRK

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	**6,749**	**3,937**	**70,673**	**81,359**	**6,959**	**1,868**	**71,341**	**80,168**
Impact on P&L								
Net credit losses on loans and advances to customers (Note 9)	2,226	541	5,492	8,259	79	2,040	5,565	7,684
Foreign exchange differences	-	-	-	-	18	29	25	72
Without impact on P&L	-	(1,195)	(5,196)	(6,391)	-	-	-	-
Write-off	2,226	541	5,492	8,259	(307)	-	(6,258)	(6,565)
At 31 December	**8,966**	**3,272**	**71,103**	**83,341**	**6,749**	**3,937**	**70,673**	**81,359**

The table below sets out an analysis of credit losses by different types of loans within the Retail and Corporate category:

in thousands of HRK

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January								
Retail								
At 1 January	**5,241**	**1,714**	**5,989**	**12,944**	**4,520**	**663**	**8,433**	**13,616**
Overdrafts on transaction accounts	(322)	(59)	(596)	(977)	205	82	314	601
Mortgage loans	62	(12)	89	139	14	30	43	87
Housing loans	181	8	146	335	88	275	(61)	302
Cash loans	1,029	115	412	1,556	434	500	(1,237)	(303)
Loans for agriculture	(273)	(13)	(49)	(335)	(17)	(40)	(787)	(844)
Margin loans	3	(7)	-	(4)	(92)	7	-	(85)
Lombard loans	(19)	(2)	-	(21)	(3)	5	(23)	(21)
Loans for tourism	(1)	(220)	225	4	(81)	172	-	91
Other loans	39	(80)	(25)	(66)	173	20	(693)	(500)
At 31 December	**5,940**	**1,444**	**6,191**	**13,575**	**5,241**	**1,714**	**5,989**	**12,944**
Corporate								
At 1 January	**1,508**	**2,223**	**64,684**	**68,415**	**2,439**	**1,205**	**62,908**	**66,552**
Investment loans	49	(79)	345	315	76	34	(392)	(282)
Loans for payments under guarantees	-	-	46	46	-	-	-	-
Working-capital loans	(12)	(15)	-	(27)	(1,022)	465	-	(557)
Loans for agriculture	394	(319)	1,442	1,517	183	343	939	1,465
Loans for tourism	1,086	(3)	730	1,813	31	103	1,424	1,558
Lombard loans	(21)	(30)	21	(30)	32	2	(13)	21
Other loans	14	111	-	125	-	71	-	71
Overdrafts on transaction accounts	-	(1)	-	(1)	-	-	-	-
Syndicated loan	8	(59)	(2,356)	(2,407)	(231)	-	(182)	(413)
At 31 December	**3,026**	**1,828**	**64,912**	69,766	**1,508**	**2,223**	**64,684**	**68,415**
At 31 December	**8,966**	**3,272**	**71,103**	**83,341**	**6,749**	**3,937**	**70,673**	**81,359**

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

16.3. Changes in gross loans and credit losses by credit risk stages

16.3.1. Changes in gross loans by credit risk stages

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	**899,742**	**140,107**	**165,779**	**1,205,628**
From Stage 1 to Stage 2	(402,752)	402,752	-	-
From Stage 1 to Stage 3	(4,850)	-	4,850	-
From Stage 2 to Stage 1	5,205	(5,205)	-	-
From Stage 2 to Stage 3	-	(21,705)	21,705	-
From Stage 3 to Stage 2	-	971	(971)	-
Newly approved loans	194,774	-	-	194,774
Derecognition of assets	(117,517)	(60,222)	(26,961)	(204,700)
At 31 December 2020	**574,602**	**456,698**	**164,402**	**1,195,702**
At 1 January 2021	**574,602**	**456,698**	**164,402**	**1,195,702**
From Stage 1 to Stage 2	(15,799)	15,799	-	-
From Stage 1 to Stage 3	(8,246)	-	8,246	-
From Stage 2 to Stage 1	33,948	(33,948)	-	-
From Stage 2 to Stage 3	-	(26,084)	26,084	-
From Stage 3 to Stage 2	-	2,423	(2,423)	-
Newly approved loans	199,905	-	-	199,905
Derecognition of assets	(189,647)	(21,852)	(23,910)	(235,409)
At 31 December 2021	**594,763**	**393,036**	**172,399**	**1,160,198**

Note: The above amounts do not include interest receivable.

16.3.2. Changes in credit losses by credit risk stages

in thousands of HRK

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Retail								
From Stage 1 to Stage 2	-	(234)	-	(234)	-	476	-	476
From Stage 1 to Stage 3	-	-	(197)	(197)	-	-	1,734	1,734
From Stage 2 to Stage 1	259	-	-	259	(57)	-	-	(57)
From Stage 2 to Stage 3	-	-	(238)	(238)	-	-	-	-
From Stage 3 to Stage 2	-	2,818	-	2,818	-	-	-	-
Newly approved loans	1,767	-	-	1,767	3,100	-	-	3,100
Derecognition and changes in provisions	(248)	49	(481)	(680)	(102)	(126)	(256)	(484)
Foreign exchange differences	(8)	(1)	(3)	(12)	-	-	-	-
Corporate								
From Stage 1 to Stage 2	-	(115)	-	(115)	-	(313)	-	(313)
From Stage 1 to Stage 3	-	-	-	-	-	-	-	-
From Stage 2 to Stage 1	81	-	-	81	(10)	-	-	(10)
From Stage 2 to Stage 3	-	-	2	2	-	-	-	-
From Stage 3 to Stage 2	-	753	-	753	-	-	-	-
Newly approved loans	1,477	-	-	1,477	5,354	-	-	5,354
Derecognition and changes in provisions	(202)	92	2,675	2,565	(1,568)	(292)	(256)	(2,116)
Foreign exchange differences	(1)	(10)	137	126	18	29	25	72
Total (impact on P&L)	**3,125**	**3,352**	**1,895**	**8,372**	**6,735**	**(226)**	**1,247**	**7,756**

In 2021, the Bank sold a portion of its non-performing corporate and retail loans. Gross loans sold amounted to HRK 6,415 thousand.

17. INVESTMENT PROPERTY

in thousands of HRK

	31 December 2021	31 December 2020
Investment property	35,530	35,630
Total	**35,530**	**35,630**

Investment property is property held by the Bank either to earn rentals or for capital appreciation purposes of property leased out by the Bank. The contract with the lessee was concluded for an indefinite period and due to a very good business relationship of many years and the attractive location, the Bank does not expect to terminate the contract in the subsequent period of 5 years. Under the contract, the Bank has no obligation to invest in the premises, and incurred no costs in this respect. In 2021, the Bank performed an impairment of the said asset in accordance with a new estimate of its market value. The property is subject to a legal dispute that prevents the free disposal of the property in terms of sale.

Sensitivity to fluctuations in property prices by 1% is presented in the table below:

in thousands of HRK	31 December 2021		31 December 2020	
	Decrease	Increase	Decrease	Increase
Investment property	(355)	355	(356)	356

17.1. Fair value hierarchy

in thousands of HRK

	Level 1	Level 2	Level 3	Total
At 31 December 2021				
Investment property	-	-	35,530	35,530
Total assets	**-**	**-**	**35,530**	**35,530**

in thousands of HRK

	Level 1	Level 2	Level 3	Total
At 31 December 2020				
Investment property	-	-	35,630	35,630
Total assets	**-**	**-**	**35,630**	**35,630**

It is presented in Level 3 due to the use of the estimates and judgments of an independent appraiser, whose valuation is based on the income method.

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

in thousands of HRK

	Land and buildings	Furniture and vehicles	Equipment and other tangible assets	Tangible assets under construction	Right-of-use assets	Total tangible assets	Software	Other	Total intangible assets	Total
Cost										
At 1 January 2020	12,403	3,979	18,123	60	4,286	38,851	30,963	2,583	33,546	72,397
Additions	-	15	361	197	218	791	1,024	-	1,024	1,815
Derecognition	-	-	-	-	(55)	(55)	-	-	-	(55)
Disposals and retirements	-	(652)	(3,376)	-	-	(4,028)	(7,595)	(779)	(8,374)	(12,402)
At 31 December 2020	**12,403**	**3,342**	**15,108**	**257**	**4,449**	**35,559**	**24,392**	**1,804**	**26,196**	**61,755**
At 1 January 2021	12,403	3,342	15,108	257	4,449	35,559	24,392	1,804	26,196	61,755
Additions	212	305	162	-	1,366	2,045	1,166	482	1,648	3,693
Transfer from account during the year	-	-	-	(242)	-	(242)	-	-	-	(242)
Disposals and retirements	-	(334)	(459)	-	-	(793)	-	(16)	(16)	(809)
At 31 December 2021	**12,615**	**3,313**	**14,811**	**15**	**5,815**	**36,569**	**25,558**	**2,270**	**27,828**	**64,397**
Accumulated depreciation/amortisation										
At 1 January 2020	9,056	3,906	16,701	-	999	30,662	28,502	1,892	30,394	61,056
Charge for the year 2020	187	34	361	-	1,143	1,725	1,254	211	1,465	3,190
Disposals and retirements	-	(652)	(3,375)	-	-	(4,027)	(7,595)	(779)	(8,374)	(12,401)
At 31 December 2020	9,243	3,288	13,687	-	2,142	28,360	22,161	1,324	23,485	51,845
Charge for the year 2021	204	45	177	-	1,142	1,568	564	276	840	2,408
Disposals and retirements	-	(328)	(373)	-	-	(701)	-	(16)	(16)	(717)
At 31 December 2021	**9,447**	**3,005**	**13,491**	**-**	**3,284**	**29,227**	22,725	1,584	**24,309**	**53,536**
Net book amount at 31 December 2020	**3,160**	**54**	**1,421**	**257**	**2,307**	**7,199**	**2,231**	**480**	**2,711**	**9,910**
Net book amount at 31 December 2021	**3,168**	**308**	**1,320**	**15**	**2,531**	**7,342**	**2,833**	**686**	**3,519**	**10,861**

During the year, the Bank retired certain items of property and equipment with a total cost of HRK 802 thousand (2020: HRK 12,401 thousand) and sold a portion in the amount of HRK 7 thousand (2020: HRK 1 thousand).

At 31 December 2021, the Bank does not own any assets pledged as collateral, nor did it have any such assets in 2020.

At 31 December 2021, the balance of assets still in use although fully written off amounts to HRK 16,407 thousand (2020: HRK 15,732 thousand).

19. FORECLOSED ASSETS

Changes in foreclosed assets for uncollected receivables are as follows:

in thousands of HRK

	31 December 2021	31 December 2020
At 1 January	**25,685**	**25,758**
Increase based on assets foreclosed	91	3
Decrease due to impairment (Note 13)	(159)	(1,073)
Decrease due to sale of foreclosed assets	(5,085)	(4,283)
Increase due to reclassification of assets held for sale	-	5,280
Other adjustments	(60)	-
Balance	**20,472**	**25,685**

In 2021, the Bank sold foreclosed assets in the amount of HRK 5,085 thousand (2020: HRK 4,283 thousand) and realised a gain in the amount of HRK 3,116 thousand (2020: HRK 2,538 thousand).

Sensitivity to fluctuations in property prices by 1% is presented in the table below:

in thousands of HRK

	31 December 2021		31 December 2020	
	Decrease	Increase	Decrease	Increase
Foreclosed assets	(205)	205	(257)	257

20. OTHER ASSETS

	in thousands of HRK 31 December 2021	31 December 2020
Financial assets		
Trade receivables	1,946	1,871
Fees and commissions receivable	1,805	1,917
Receivables for third-party deposits made at court	13	13
Provisions for expected credit losses of financial assets	(827)	(1,059)
Non-financial assets		
Receivables from the state	17,304	17,759
Other receivables from employees	4,128	4,183
Other receivables	2,341	2,742
Receivables from domestic legal entities based on paid court costs	555	557
Cash in transit	9	70
Provisions for expected credit losses of non-financial assets	(8,350)	(8,266)
Total other assets	**18,924**	**19,787**

21. LIABILITIES TO BANKS

in thousands of HRK

	31 December 2021	31 December 2020
Demand deposits		
- HRK	5,593	4,235
- foreign currency	678	649
Total demand deposits	**6,271**	**4,884**
Total	**6,271**	**4,884**

22. DEMAND DEPOSITS

in thousands of HRK

	31 December 2021	31 December 2020
Demand deposits - retail		
- HRK	159,997	151,747
- foreign currency	192,335	197,109
Total retail	**352,332**	**348,856**
Demand deposits - corporate		
- HRK	143,397	157,657
- foreign currency	31,621	17,470
Total corporate	**175,018**	**175,127**
Demand deposits - financial institutions		
- HRK	1,684	360
- foreign currency	-	2
Total financial institutions	**1,684**	**362**
Demand deposits - government and other institutions		
- HRK	54,118	56,084
- foreign currency	15,142	16,065
Total government and other institutions	**69,260**	**72,149**
Restricted deposits		
- HRK	12,064	11,876
- foreign currency	15,035	15,123
Total restricted deposits	**27,099**	**26,999**
Deposits of foreign entities		
- HRK	3,175	2,073
- foreign currency	36,181	29,545
Total foreign entities	**39,356**	**31,618**
Total	**664,749**	**655,111**

23. TERM DEPOSITS

in thousands of HRK

	31 December 2021	31 December 2020
Deposits - retail		
- HRK	157,965	145,526
- foreign currency	540,482	578,194
Total retail	**698,447**	**723,720**
Deposits - corporate		
- HRK	77,393	81,821
- foreign currency	6,699	5,011
Total corporate	**84,092**	**86,832**
Deposits - financial institutions		
- HRK	6,000	20,000
Total financial institutions	**6,000**	**20,000**
Deposits of government and other institutions - in HRK	**9,789**	**16,109**
Deposits of foreign entities		
- HRK	2,474	1,863
- foreign currency	50,466	58,861
Total foreign entities	**52,940**	**60,724**
Deposits of non-profit organisations - in foreign currencies	**33**	**213**
Accrued interest	**2,674**	**3,980**
Total	**853,975**	**911,578**

24. BORROWINGS

in thousands of HRK

	31 December 2021	31 December 2020
Croatian National Bank	140,000	140,000
Domestic banks	1,525	2,586
Foreign banks	15,034	36,931
Accrued interest	516	164
Total	**157,075**	**179,681**

25. OTHER LIABILITIES

in thousands of HRK

	31 December 2021	31 December 2020
Financial liabilities		
Trade payables	1,118	850
Fees and commissions payable	137	140
Liabilities for savings deposit insurance	-	1,066
Non-financial liabilities		
Amounts due to employees	2,259	2,263
Deferred income and accrued expenses	1,917	1,752
Other liabilities	1,579	1,600
Total	**7,010**	**7,671**

in thousands of HRK

	31 December 2021	31 December 2020
Lease liabilities		
- current	1,132	788
- non-current	1,477	1,619
Total	**2,609**	**2,407**

Liabilities from financial instruments relate to bank and customer deposits and other borrowings.

	Liabilities from financial instruments	Lease liabilities	Total debt	Cash and cash equivalents	Net debt
At 1 January 2020	**(160,891)**	**(3,377)**	**(164,268)**	**171,293**	**7,025**
Accrued interest	(766)	(39)	(805)	-	**(805)**
New leases/new borrowings	(21,183)	(163)	(21,346)	-	**(21,346)**
Cash flow	*3,159*	*1,172*	4,331	*45,601*	**49,932**
At 1 January 2021	**(179,681)**	**(2,407)**	**(182,088)**	**216,894**	**34,806**
Accrued interest	(1,042)	(30)	(1,072)	-	**(1,072)**
New leases/new borrowings	-	(1,366)	(1,366)	-	**(1,366)**
Cash flow	23,648	1,194	24,482	20,414	**45,256**
At 31 December 2021	**(157,075)**	**(2,609)**	**(159,684)**	**237,308**	**77,624**

26. PROVISIONS

in thousands of HRK

	31 December 2021	31 December 2020
Provisions for legal disputes	45,845	44,962
Provisions for contingent liabilities and commitments	4,831	3,338
Provisions for termination benefits	104	350
Provisions for unused vacation days	130	101
Other provisions	431	690
Total	**51,341**	**49,441**

Movements in provisions are presented as follows:

in thousands of HRK

	2021	2020
At 1 January	**49,441**	**49,132**
Reversal of provisions for legal disputes against the bank (Note 10)	(50)	(2,095)
New provisions for legal disputes (Note 10)	940	1,195
Changes in provisions for contingent liabilities and commitments (Note 10)	1,492	1,393
Cost of provisions for termination benefits, vacation days etc. (Note 8)	119	295
Changes in other provisions	(260)	14
Changes in payments made under legal disputes	(6)	(493)
Changes in payments made under termination benefits	(335)	-
At 31 December	**51,341**	**49,441**

In 2021, the Bank paid HRK 6 thousand from the provisions for legal disputes (2020: HRK 493 thousand). The total amount of legal disputes against the Bank as at 31 December 2021 amounted to HRK 150,075 thousand (31 December 2020: HRK 147,048 thousand).
Provisions for off-balance-sheet exposure to credit risk and legal disputes are recognised as other losses from impairment and provisions in profit or loss (Note 10).

27. SHARE CAPITAL

As at 31 December 2021 and 2020, the sole shareholder of the Bank is the Croatian Deposit Insurance Agency, which is owned by the Republic of Croatia, so the Bank’s ultimate owner is the Republic of Croatia.

The share capital in the amount of HRK 474,600 thousand (2020: HRK 474,600 thousand) consists of 4,746,000 shares with a nominal value of HRK 100 per share (2020: 4,746,000 shares with a nominal value of HRK 100 per share). Each share carries one vote.

28. OFF-BALANCE SHEET EXPOSURES

in thousands of HRK

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Guarantees	86,987	11,524	-	98,511
Unbacked letters of credit	1,168	-	-	1,168
Revolving loans	35,196	18	9	35,223
Other common risk-bearing off-balance sheet items	47,002	862	-	47,864
Total	**170,353**	**12,404**	**9**	**182,766**

in thousands of HRK

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Guarantees	63,431	-	-	63,431
Unbacked letters of credit	10,137	-	-	10,137
Revolving loans	59,617	19	13	59,649
Other common risk-bearing off-balance sheet items	54,256	4,000	-	58,256
Total	**187,441**	**4,019**	**13**	**191,473**

The item "Other common risk-bearing off-balance sheet items" relates to liabilities based on the payment of approved but unused amounts of the framework that clients can use in the form of various types of products (credit, guarantee, letter of credit).

29. LEGAL DISPUTES

There are 53 pending legal disputes against the Bank.

In accordance with internal bylaws and legal regulations, the Bank assesses the potential outflow of cash regarding disputes carrying a risk of loss and forms appropriate provisions.

As at 31 December 2021, the provisions for losses from legal disputes filed against the Bank amounted to HRK 45,845 thousand (2020: HRK 49,962 thousand).

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of preparing the cash flow statement are presented in the table below:

in thousands of HRK

	31 December 2021	31 December 2020
Cash on hand and on current accounts with banks (Note 12)	219,433	201,159
Balances with other banks with maturities up to 3 months (Note 14)	18,109	15,941
Total	**237,542**	**217,100**
Expected credit losses (Note 9)	(234)	(206)
Total	**237,308**	**216,894**

31. RELATED PARTY TRANSACTIONS

The Bank is wholly owned (100%) by the Croatian Deposit Insurance Agency (CDIA). The Bank considers to be directly related to its shareholder, Supervisory Board and Management Board members and other executives (jointly referred to as "the key management personnel"), their close family members, companies under joint control or under significant influence of Management Board members, key management personnel or their close family members or companies in which the above persons have significant voting rights, directly or indirectly, in accordance with the definition of related parties provided in International Accounting Standard 24 "Related Party Disclosures" (IAS 24). Key management personnel includes members of the Management Board and the Supervisory Board, directors of Sectors and directors of control functions. As at 31 December 2021, key management personnel comprised 18 employees (2020: 16 employees).

The balances of assets and liabilities as well as income and expenses as at 31 December 2021 and 31 December 2020 and for the years then ended resulting from key transactions with related parties are as follows:

in thousands of HRK

2021	Receivables	Liabilities	Income	Expenses
CDIA (sole shareholder)	82	68,245	8	15
Key management				
Short-term (a vista deposits, bonuses, salaries, benefits)	121	1,316	13	4,568
Pension contributions	-	-	-	871
Long-term (loans, term deposits and other)	1,723	937	73	4
State in narrow and broad definitions	717,212	90,081	13,249	1,746
Total	**719,138**	**160,579**	**13,343**	**7,204**

in thousands of HRK

2020	Receivables	Liabilities	Income	Expenses
CDIA (sole shareholder)	18	34,629	50	4,283
Key management				
Short-term (a vista deposits, bonuses, salaries, benefits)	525	1,338	13	3,692
Pension contributions	-	-	-	923
Long-term (loans, term deposits and other)	5,296	2,080	167	14
State in narrow and broad definitions	748,862	210,910	15,741	1,942
Total	**754,701**	**248,957**	**15,971**	**10,854**

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel

Key management personnel does not hold any of the Bank's shares. Loans and receivables from customers include HRK 1,841 thousand (2020: HRK 5,749 thousand) of loans to key management personnel. During the year, the Bank collected interest in the amount of HRK 78 thousand (2020: 166 HRK thousand) from loans and receivables from key management personnel granted at annual interest rates ranging from 3.00% to 4.41% (2020: from 2.75% to 4.38%). The balance of current accounts and customer deposits includes term deposits of key management personnel in the amount of HRK 937 thousand (2020: HRK 1,990 thousand). The interest that the Bank paid on those deposits in 2021 amounted to HRK 4 thousand (2020: 14 HRK thousand) at an annual interest rate ranging from 0.15% - 1.00% (2020: 0.10% - 1.00%).

In 2021, costs in respect of the Supervisory Board amounted to HRK 349 thousand (2020: HRK 350 thousand).

State in narrow and broad definition

Transactions with the state in narrow and broad definition comprise transactions with:

- the Central Government
- local governments
- public non-financial companies
- public insurance companies and pension funds
- public auxiliary financial institutions
- other public monetary financial institutions
- other public financial intermediaries.

Most significant receivables from the state in narrow and broad definition are as follows:

As at 31 December 2021, the exposure to the state in narrow and broad definitions comprises the exposure to the state-owned company Hrvatske autoceste d.o.o. in the amount of HRK 327,114 thousand (2020: HRK 322,426 thousand) under a syndicated loan.

The Bank's exposure to HŽ Cargo amounted to HRK 45,699 thousand (2020: HRK 55,617 thousand). The receivables from Borovo d.d. amounted to HRK 45,984 thousand (2020: HRK 46,200 thousand). The receivables from the Đuro Đaković Group amounted to HRK 6,138 thousand (2020: HRK 9,166 thousand).

The Bank's exposures to the Ministry of Finance under the Ministry's quoted bonds amount to HRK 69,912 thousand (2020: HRK 96,286 thousand), and those under treasury bills issued by the Ministry of Finance amount to HRK 197,796 thousand (2020: HRK 175,414 thousand).

The restricted deposit of the Ministry of Finance amounted HRK 15,034 thousand (2020: HRK 15,073 thousand).

As at 31 December 2021, the Restructuring and Sale Centre holds HRK 5,428 thousand on the transaction account at the Bank (2020: HRK 12,026 thousand).

As at 31 December 2021, the Bank's shareholder, the Croatia Agency for Deposit Insurance and Bank Rehabilitation, holds HRK 34,101 thousand on the transaction account (2020: HRK 34,616 thousand).

As at 31 December 2021, the amount owed by the Bank for loans received from the Croatian Bank for Reconstruction and Development (joint customer funding with CBRD) was HRK 1,525 thousand (31/12/2020: HRK 2,589 HRK thousand).

All the above-mentioned significant transactions with the state and state-owned companies were entered into at arm's length.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Most significant income and expenses from the state in narrow and broad definition are as follows:

Income recognised in the income statement in 2021 treated as key transactions is as follows:

- income from loans to Hrvatske autoceste in 2021 amounts to HRK 6,353 thousand (2020: HRK 6,006 thousand).
- income from loans to HŽ Cargo in 2021 amounts to HRK 2,284 thousand (2020: HRK 2,577 thousand).
- income from securities of the Republic of Croatia amounts to HRK 424 thousand (2020: : HRK 672 thousand).

Expenses recognised in the income statement treated as key transactions are as follows:

- costs of loans received from CBRD in 2021 in the amount of HRK 69 thousand (2020: HRK 92 thousand).
- in 2021 there were no expenses in respect of CDIA relating to costs for the savings deposit insurance (2020: HRK 4,258 thousand).

Off-balance sheet contingent liabilities to key management personnel and the state in narrow and broad definition:

in thousands of HRK

31 December 2021	Key management personnel	State in narrow and broad definition
Credit lines and other off-balance-sheet items	292	18,382

31 December 2020		
Credit lines and other off-balance-sheet items	160	7,888

The Bank's maximum off-balance sheet exposure to the state in narrow and broader definitions relates to ĐURO ĐAKOVIĆ SPECIJALNA VOZILA DIONIČKO DRUŠTVO ZA PROIZVODNJU I USLUGE in the amount of HRK 9,914 HRK thousand (2020: Bošnjaci Municipality in the amount of HRK 1,973 thousand). All exposures presented in this note are on a gross basis (i.e. before credit losses).

32. RISK MANAGEMENT POLICIES

Details on the Bank's exposure to risks and methods Management applies for risk control are described below. The most significant types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and price risk.

32.1. Credit risk

In its business activities the Bank is continuously exposed to credit risk arising from its lending and investing and in cases where it acts as an intermediary on behalf of customers or other third parties.

The Bank's primary exposure to credit risk arises from loans and receivables from customers and banks and investment securities. In addition, the Bank is exposed to credit risk on its off-balance sheet items, reflecting its commitments under undrawn facilities and guarantees issued.

Credit risk is the greatest individual risk arising from the Bank's operations; therefore, all organisational units and functions of the Bank monitor the risk closely. Credit risk management and control are centralised in the Risk Management Department which regularly reports to the Management Board, other bodies of the Bank, the Supervisory Board and senior management.

For the purpose of credit risk management, the Bank has spread its principal credit risk management activities over the following processes:

- loan approval
- loan monitoring
- loan portfolio analysis
- non-performing loans
- early warning of increased credit risk
- loan classification according to risk degrees.

Establishing appropriate relations between the individual processes is a particularly important process, as it helps prevent any process overlaps and misalignment and establishes the necessary level of segregation of duties and responsibilities for the processes.

Organisational responsibilities for credit risk management are divided among the responsibility structures of sales and back-office/organisational units/functionalities, among control and management functions, and operation support, and are additionally positioned for all credit risk management segments, including:

- risk identification,
- risk measurement and assessment,
- risk management,
- risk controls and risk reporting.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.1. Credit risk (continued)

Loan analysis is organisationally placed within the Risk Management Department whose scope of responsibilities directly affect the credit risk management, primarily in developing analyses and opinions regarding the Bank's credit risk appetite, which includes the following sub-processes:

- Providing opinion on new credit placements
- Providing opinion on proposals for changes in conditions of existing placements
- Analysing the viability of proposed renewal and restructuring of the existing placements
- Periodic reviews of all existing placements

In analysing placements that belong to the credit risk management area, the Risk Management Department also estimates the acceptability of credit risk by individual placements, in accordance with the standards and criteria of best banking practice, i.e. application of the effective (external and internal) normative regulations. It communicates its views/principles of assessing the credit risk acceptability to decision-making individuals and bodies responsible for loans.

Further responsibilities of staff engaged in loan analysis include monitoring credit risk exposure, including the early warning of increased credit risk. The duties and responsibilities of the Risk Management Department include the credit portfolio control activity, which ensures, in cooperation with other organisational units at the Bank, timely identification of customers with potential risk. Such an approach involves a complex management of business relations with customers aiming at decreasing credit risk costs and improving the quality of the Bank’s credit portfolio.

Credit risk control is based on an individual approach to the credit risk assessment specifically tailored to individual customers, including identification of customers with a potential risk, analysis and classification of customers with potential risk, determining the form and manner of managing business relations with customers, and following-up.

Special attention is paid to managing exposures to related parties by reference to the effective organisational normative and operational rules, as well as other aspects of credit risk exposure defined by the Credit Institutions Act and the related by-laws and internal acts governing its implementation.

32.1.1. Credit risk management

The expected credit losses are calculated as a sum of PD (Probability of Default), Loss Given Default (LGD) and Exposure at Default (EAD) over the remaining expected life of the financial asset and are discounted at the reporting date at the effective interest rate for exposures with a significant increase in credit risk (Stage 2 Contracts). On the other hand, for exposures classified as Stage 1, the expected credit loss is calculated over a one-year period, i.e. the expected credit loss of 1 year is estimated.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.1 Credit risk (continued)

32.1.1. Credit risk management (continued)

Increase in credit risk since initial recognition

Significant increase in credit risk since initial recognition

Observable impairment factors

STAGE 1 ***Performing***	*STAGE 2* ***Underperforming***	*STAGE 3* ***Non-performing***
• 12-month expected • credit losses • Initial recognition • Credit quality has not • deteriorated significantly	• Lifetime expected credit losses • Significant increase in credit risk since initial recognition	• Lifetime expected credit losses • Impairment of financial assets

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers quantitative and qualitative information and expert credit assessments based on historical experience. For the purpose of proper allocation of income-based exposures, criteria for determining a significant increase in credit risk (transition from Stage 1 to Stage 2) were defined:

- If the debtor defaults on payment of due exposures for more than 30 days, but does not exceed a period of 90 days. This provision does not apply to exposures to the central government and other exposures for which the Bank can prove that a 30-day default is not a relevant indicator;
- The debtor has watch-list or exit status/monitoring and days past due do not exceed 90 days;
- The debtor meets the blockage criterion (in line with internal segmentation, for natural persons if continuous blockage exceeds 10 days, and for others if continuous blockage exceeds 15 days) and the number of days past due does not exceed 90 days.
- If the debtor has been granted a Covid-19 Moratorium or Covid-19 Restructuring Arrangement and the debtor has not previously been classified in a higher-risk category.

In addition to assessing the risk of default, the Bank also defines the default status. It is considered that the status of default of a particular debtor (Stage 3) has occurred when one of the following conditions or both of the following conditions have been met:

a) the Bank considers it likely that the debtor will not fully meet its obligations, not taking into account the possibility of recovery from the collateral;

b) if the debtor is more than 90 days past due.

Exceptionally, for the exposures from the retail exposures category the Bank assesses the default status based on an individual product and if it has a balance sheet exposure towards a debtor with the default status and the gross carrying amount of exposure with the default status accounts for more than 20% of gross carrying amount of all balance sheet exposures to that debtor, all on-balance sheet and off-balance sheet exposures by all products of that debtor are considered to be in default.

When defining the default status, the Bank uses objective evidence of partial or complete irrecoverability of placements.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.1 Credit risk (continued)
32.1.1. Credit risk management (continued)

The following is considered as objective evidence of partial recoverability of placements:

- • observable significant financial difficulties of the debtor;
- • if the debtor is in default for more than 90 days or in the event of a frequent delinquency in interest and/or principal payments or failure to perform other contractual provisions;
- • if the Bank makes a payment on the given guarantees and the debtor does not settle the obligation within 90 days;
- • if cash flows from operations and secondary sources (insurance instruments) are not sufficient to settle the contractual obligations, taking into account the timeliness of settlement (days past due);
- • if the debtor requires exposure restructuring, write-offs of liabilities and other actions that result in the decrease of the client's original liabilities

The following is considered to be objective evidence of total irrecoverability/loss:

- bankruptcy, liquidation or termination of business for other reasons, while at the same time the Bank has no recognised and separate satisfaction and/or exclusion rights over the assets of the debtor or other collaterals and it is estimated that the Bank cannot expect to collect a portion of its receivables due to the debtor's insufficient funds and/or the recovery priority order in bankruptcy proceedings;

- if the debtor is in continuous default for more than 365 days, and the Bank does not have adequate collaterals;

- if the placement is the subject of a legal dispute for which it is presumed that the Bank could lose it in its entirety.

In order to determine the increased credit risk in addition to the quantitative indicators, the Bank conducts a placements monitoring process and a system of early increased credit risk detection for the purpose of timely identification of clients with increased risk exposure and for the purpose of establishing adequate placement / client monitoring at an already established increased degree of risk, all in order to avoid and/or reduce potential losses on placements.

The following monitoring statuses (risk zones) were established for the placement/client portfolio:

- STANDARD - standard exposure - monitored every 12 months, with the exception of the Financial Markets Sector for which exposure is monitored every 3 months
- WATCH - potentially problematic exposure - monitored within a year, every 3 to 9 months,
- EXIT - problematic exposure where the Bank exits from a business relationship with a client - exposure is monitored every 3 months,
- NO MONITORING NECESSARY

Expected credit loss measurement

The key inputs for measuring the expected credit loss are the following variables:

- PD - probability of default
- LGD - loss given default
- EAD - exposure at default

Expected credit losses for the exposures (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and EAD.

Lifetime expected credit losses are calculated by multiplying the lifetime PD with LGD and EAD and discounting it at the reporting date.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.1. Credit risk (continued)

32.1.1. Credit risk management (continued)

Probability of default (PD) i.e. the probability of a transition from a performing to the non-performing status.

The basis for estimating lifetime PD is the empirical default rate. The empirical default rates and consequently the estimated lifetime PDs are calculated at the segment level:

- Corporate
- SME
- Retail
- Public
- Financials
- Retail Overdraft

Exposure at default (EAD) is the value a bank is exposed to when a loan defaults. The Bank calculates the exposure at default:

- For products with cash flows (mortgages, long-term loans, investment loans, bonds...) EAD is calculated based on cash flows received from repayment plans.

For other products with no cash flow the CFF factor 1 applies.

32.2. Credit risk measurement

Loans and receivables (including contingent liabilities)

The Bank assesses the probability of default by individual clients using internal assessment tools created for all categories of customers in line with the internal acts and applicable laws.

Loans and contingent liabilities are classified into the following two key categories:

1.1. fully recoverable loans (risk category A) – loans assessed as fully recoverable (principal and interest) or contingent liabilities that are not expected to result in an outflow of the Bank’s resources or if there is an outflow, that will be fully recovered. The Bank allocates these loans to the following sub-categories:

   - Stage 1; if after initial recognition the credit risk of a certain exposure of the debtor has not increased significantly,
   - Stage 2; if after initial recognition the credit risk of a certain exposure of the debtor has increased significantly.

1.2. partly recoverable and fully irrecoverable loans (Stage 3) – loans assessed as not recoverable at contractual amounts (principal and interest) or contingent liabilities expected to result in an outflow of the Bank's resources in excess of the estimated recoverable amount and loans assessed as fully irrecoverable or insignificantly recoverable or contingent liabilities expected to result in an outflow of the Bank's resources assessed as fully irrecoverable.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.2. Credit risk measurement (continued)

Managing credit risk of a portfolio of workout or non-performing (bad) loans is the responsibility of a separate unit within the Bank which is in charge of working out such debt (Workout and Non-performing Loans Team), both owed by legal entities and natural persons. These activities are primarily aimed at realising positive effects of the implementation of various forms of financial consolidation of clients' business, including various forms of prolongation, renewal or restructuring of loans with the aim of their recovery and realisation of the maximum possible level of receivables collection and improvement in the credit and guarantee portfolio of the Bank, as well as cases of full or partial stabilisation of the clients' business by taking consolidation measures, enabling the inclusion of such loans in "performing" ones.

The Risk Management Department estimates future cash flows from non-performing loans on the basis of which provisions for impairment are determined. Such assessment is prepared for all loans managed.

In accordance with the provisions of IFRS 9 for performing loans the Bank appropriately impairs and provides for exposures equalling the following:

- 12-month expected credit losses for Stage 1 loans,
- lifetime expected credit losses for Stage 2 loans.

The Bank makes provisions for expected credit losses on loans and their impairment as follows:

a) on an individual basis

   - for loans classified in the "large loans portfolio"

b) on a collective basis

   - for loans classified in the "small loans portfolio" and overdrafts on current accounts

The small loans portfolio comprises the total Bank's exposure to one person or a group of related persons that is not individually significant, i.e. at the date of assessment does not exceed HRK 250,000. Thereby the total exposure amount includes all active balance sheet and off-balance sheet items that are subject to classification into stages.

The large loans portfolio, individually significant exposure, comprises the total exposure to one person or a group of related persons whose total exposure at the date of assessment exceeds HRK 250,000.

The credit risk assessment on an individual basis is a separate estimation of future cash flows and determining the existence or non-existence of expected credit losses for each individual loan and each individual off-balance sheet liability that the Bank is obliged to apply in assessing loans and off-balance sheet liabilities that are an integral part of individually significant exposure.

Credit risk assessment on a collective basis is a collective estimation of future cash flows and determining the existence or non-existence of expected credit losses for groups with similar characteristics of credit risk and off-balance sheet liabilities, and is performed in the following cases:

- in assessing expected credit losses for loans included in the small loans portfolio and overdrafts on current accounts.

The credit risk exposure is also managed by a regular analysis of the ability of the existing clients and potential clients to settle their liabilities of repaying interest and principal and by changing credit limitations where necessary. Further specific measures for credit risk control and mitigation are stated below.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.3. Risk limit control and mitigation policies

(a) Security instruments

The Bank uses policies of security instruments for receivables that prescribe the main rules aimed at minimising the risk from credit operations. Security instruments for receivables represent the secondary collection source, while the clients' operations and their ability to generate sufficient cash funds for settling financial liabilities are the primary source of collecting the Bank's receivables. The rules that prescribe the obligation to take security instruments for which the normative acts prescribe the conditions for acceptability, individually for each of the specific security instruments categories are standardised. Also, specific modalities of credit protection aimed at decreasing or mitigating credit risks are determined.

The most significant types of security instruments for loans and receivables are as follows:

a) Mortgage over property,
b) Pledge over operating/tangible assets,
c) Pledge over financial instruments such as debt and equity securities,
d) Insurance policies for loan receivables, life insurance policies with redemption values and other instruments whose quality based on evidence may be equalised with the quality of other above-mentioned instruments.

Non-current financial assets, loans to companies and natural persons are generally secured by appropriate security instruments.

In addition, in order to reduce credit loss, the Bank requires additional collaterals from the contractual parties as soon as indicators of impairment for individual relevant loans and advances are determined. The collateral held as security for all financial assets other than loans and advances is determined on the basis of the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Commitments to extend credit

Loan commitments are unused granted loan amounts in the form of loans, guarantees or letters of credit. With respect to credit risk from loan commitments, the Bank is potentially exposed to loss in the amount equal to the total unused commitments.

However, the potential loss amount is lower than the total amount of unused commitments, since the majority of commitments depends on maintaining specific credit standards by the clients. The Bank monitors the remaining period to loan maturities as non-current liabilities generally have a higher degree of credit risk compared to current liabilities.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.4. Impairment and provisioning policies

The amount of provisions for expected credit losses in the portfolio of clients monitored on an individual basis is determined using the dynamic approach, on the basis of the calculation of the loan's recoverable value, calculated as the net present value of estimated future cash flows discounted at the effective interest rate of the loan at the moment when it was assessed as "non-performing" (for loans granted at fixed rates it is the original effective rate calculated at the moment of granting).

Security instruments for which the nominal value is discounted are as follows:

- pledge over housing property
- pledge over other property and movables for which a market exists and which may be sold in acceptable time periods.

Discounting future cash flows to the present value is calculated individually for all long-term loans from the large loans portfolio for which an impairment loss was identified and it is estimated that their future cash flow from operating activities and cash flow from security instruments will not be sufficient.

Based on the timely repayment criteria, loans in the large loans portfolio are classified into the following stages:

1) Stage 1 and Stage 2 include loans that meet the following criteria:
   - the debtor's current financial situation and estimated future cash flows do not give rise to any doubts with respect to the debtor's further operations and settlement of their current and future liabilities to the Bank and other creditors,
   - the debtor settles their liabilities to the Bank in contracted terms, and only exceptionally and occasionally after their maturity,
   - the loans are secured by adequate security instruments for receivables.

   The Bank has prescribed the following indicators for determining increased credit risk of the debtor and classifying it in Stage 2:
   - If the debtor defaults on payment of due exposures for more than 30 days, but does not exceed a period of 90 days. This provision does not apply to exposures to the central government and other exposures for which the Bank can prove that a 30-day default is not a relevant indicator;
   - The debtor has watch-list or exit status/monitoring and days of delay do not exceed 90 days;
   - The debtor meets the blockage criterion (in line with internal segmentation, for natural persons if continuous blockage exceeds 10 days, and for others if continuous blockage exceeds 15 days) and the number of days past due does not exceed 90 days.;
   - If the debtor has been granted a Covid-19 Moratorium or Covid-19 Restructuring Arrangement and the debtor has not previously been classified in a higher-risk stage.

2) Stage 3 includes partially recoverable loans that are estimated not to be collected in the agreed amount (principal and interest), or contingent liabilities on the basis of which an outflow of the Bank's funds is expected that exceeds the estimated recoverable amount and fully irrecoverable loans or receivables arisen on a disputable legal basis and other receivables for which, due to an exceptionally poor asset and financial position of the debtor, and due to the lack of adequate security instruments, no cash flows can be expected for settling the debtor's liabilities to the Bank.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.4. Impairment and provisioning policies (continued)

Specific provisions for impairment for the remaining portfolio of non-performing small loans (exposures below HRK 250 thousand) and overdrafts on current accounts are calculated by reference to the regularity of payment.

Based on the timely repayment criteria, loans in the small loans portfolio and overdrafts on current accounts are classified into the following stages:

1) Stage 1 and Stage 2 include fully recoverable loans. For a loan to remain classified in the above stages, the following conditions must be met:

   - the debtor's past due liabilities to the Bank do not exceed 90 days

   - the full loan amount is covered by a guarantee deposit.

2) Stage 3 includes loans that must be provided for on the basis of the number of days past due, where fully irrecoverable loans are loans that are past due more than 365 days.

32.5. Debt securities

For the purpose of realising future yield, the Bank usually invests surplus liquid funds in high-quality government debt securities and foreign bonds.

32.6. Past due and not past due loans and receivables

Past due and not past due loans and receivables by type at 31 December 2021

in thousands of HRK

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	627	11,048	1,205	7,520	5	1,700	22,105
31-60 days	576	928	366	6	1	331	2,208
61-90 days	247	-	-	-	1	151	399
Over 90 days	1,236	64,324	931	1,975	2	20,666	89,134
Not past due	231,404	206,377	58,401	20,086	56,929	473,155	1,046,352
Total	**234,090**	**282,677**	**60,903**	**29,587**	**56,938**	**496,003**	**1,160,198**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.6. Past due loans and receivables (continued)

Past due loans and receivables by type at 31 December 2020

in thousands of HRK

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	353	3,730	859	6,884	4	218	12,048
31-60 days	128	2,498	171	-	-	106	2,903
61-90 days	33	-	-	-	-	3	36
Over 90 days	309	62,543	1,074	1,556	-	19,887	85,369
Not past due	246,961	202,129	58,048	27,405	55,350	505,453	1,095,346
Total	**247,784**	**270,900**	**60,152**	**35,845**	**55,354**	**525,667**	**1,195,702**

32.7. Unimpaired loans

Unimpaired loans at 31 December 2021

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	220,764	181,455	48,094	19,629	55,155	457,691	982,788
Past due	92	10,113	1,211	5,660	3	1,563	18,642
Total	**220,856**	**191,568**	**49,305**	**25,289**	**55,158**	**459,254**	**1,001,430**

Unimpaired loans at 31 December 2020

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	238,477	186,955	51,629	27,018	54,763	478,034	1,036,876
Past due	72	3,943	865	5,084	4	92	10,060
Total	**238,549**	**190,898**	**52,494**	**32,102**	**54,767**	**478,126**	**1,046,936**

Unimpaired loans and receivables relate to Stage 1 and Stage 2 loans, i.e. loans and receivables regularly repaid by clients and not impaired by the Bank.

The line item 'Other' relates mainly to the participation in syndicated loans which in 2021 amounted to HRK 373,060 thousand (2020: HRK 386,642 thousand), as well as lombard loans in the amount of HRK 55,685 thousand (2020: HRK 55,001 thousand), margin loans in the amount of HRK 4,255 thousand (2020: HRK 4,669 thousand) and mortgage loans in the amount of HRK 14,906 thousand (2020: HRK 13,373 thousand). The remaining balance comprises individual smaller loans intended for diverse purposes.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.7. Impaired loans (continued)

Impaired loans at 31 December 2021

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	10,640	24,922	10,307	457	1,774	15,464	63,564
Past due	2,593	66,187	1,290	3,842	6	21,286	95,204
Total	13,233	91,109	11,597	4,299	1,780	36,750	158,768
Credit losses	**3,428**	**42,856**	**978**	**1,836**	**166**	**21,839**	**71,103**

Impaired loans at 31 December 2020

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	8,484	15,174	6,419	387	587	27,419	58,470
Past due	751	64,828	1,239	3,356	-	20,122	90,296
Total	9,235	80,002	7,658	3,743	587	47,541	148,766
Credit losses	**4,172**	**38,756**	**1,562**	**2,146**	**75**	**24,461**	**71,172**

The line item 'Other' mainly comprises loans to customers undergoing pre-bankruptcy in the amount of HRK 12,690 thousand (2020: HRK 23,690 thousand and loans for financial restructuring in the amount of HRK 19,187 thousand (2020: HRK 18,643 thousand). The remaining balance comprises individual smaller loans intended for diverse purposes.

32. RISK MANAGEMENT POLICIES (CONTINUED)
32.8. Structure of loans and off-balance contingent liabilities by type of activity

Structure of loans and off-balance contingent liabilities by type of activity as at 31 December 2021
in thousands of HRK

Activity sector	Total loans and off-balance sheet liabilities	Unimpaired loans and off-balance sheet liabilities	Impaired loans and off-balance sheet liabilities	Credit loss balance	Credit loss %
Agriculture, hunting, forestry and fishing	111,816	101,932	9,884	6,660	**5.96**
Processing industry	176,842	105,158	71,684	29,059	**16.43**
Civil engineering	444,263	407,688	36,575	28,251	**6.36**
Wholesale and retail trade, repair of motor vehicles and household items	73,066	56,079	16,987	8,145	**11.15**
Service activities	85,462	76,879	8,583	1,375	**1.61**
Financial intermediation	61,186	61,138	48	784	**1.28**
Foreign financial institutions	0	0	0	0	**0.00**
CNB	0	0	0	0	**0.00**
Other activities	87,102	75,217	11,885	4,383	**5.03**
Activity sectors outside the National Classification of Activities	366,796	343,612	23,184	16,312	**4.45**
TOTAL	**1,406,533**	**1,227,703**	**178,830**	**94,969**	**6.75**

Structure of loans and off-balance contingent liabilities by type of activity as at 31/12/2020 in thousands of HRK

Activity sector	Total loans and off-balance sheet liabilities	Unimpaired loans and off-balance sheet liabilities	Impaired loans and off-balance sheet liabilities	Credit loss balance	Credit loss %
Agriculture, hunting, forestry and fishing	91,123	81,243	9,880	6,374	**7.00**
Processing industry	191,557	140,616	50,941	26,497	**13.83**
Civil engineering	419,016	381,415	37,601	27,153	**6.48**
Wholesale and retail trade, repair of motor vehicles and household items	100,473	76,581	23,892	8,811	**8.77**
Service activities	159,344	145,617	13,727	2,581	**1.62**
Financial intermediation	21,827	21,827	0	328	**1.50**
Foreign financial institutions	0	0	0	0	**0.00**
CNB	0	0	0	0	**0.00**
Other activities	38,081	34,916	3,165	2,826	**7.42**
Activity sectors outside the National Classification of Activities	364,969	351,971	12,998	9,607	**2.63**
TOTAL	**1,386,390**	**1,234,186**	**152,204**	**84,177**	**6.07**

32 RISK MANAGEMENT POLICIES (CONTINUED)

32.9. Loans and advances to customers in stage 3 for which provisions have been made

in thousands of HRK

	Retail customers	Corporate customers	Total
31 December 2021			
Total exposure	31,647	127,121	158,768
Provisions	6,190	64,913	71,103
Total net exposure	25,456	62,208	87,664
Market value of collateral	12,862	28,601	41,463
% of collateral coverage	50.53%	45.98%	47.30%

in thousands of HRK

	Retail	Corporate customers	Total
31 December 2020			
Total exposure	23,171	125,595	148,766
Provisions	5,988	64,685	70,673
Total net exposure	17,183	60,910	78,093
Market value of collateral	11,890	67,338	79,228
% of collateral coverage	69.20%	110.55%	101.45%

32.10. Credit risk sensitivity analysis

As part of the macroeconomic factors sensitivity analysis regarding credit risk provisions, the Bank analyses the effects of macroeconomic indicators and parameters on future operations by increasing Stage 3 loans, the "bad" migration of NPLs etc.

The Bank uses the stress test scenario as published in Financial Stability from May 2012 as the basis for creating a stress test scenario and *Macroeconomic adverse scenario in 2015 designed by ERSB*.
On this basis, the Bank uses the following parameters and indicators in stress testing:

- Increase in Stage 3 loans in total loans by 20%,
- Arranging new defaults in a way that 55% of loans is classified into sub-categories with ECLs of up to 30% loan value, and the remaining 45% of newly-defaulted loans is classified into sub-categories with ECLs of 30%-70% loan value,
- Transfer of existing defaulted loans from lower risk subcategories into higher risk sub-categories (5% per each sub-category). VICR stress tests are subtracted from the projected new value adjustments.

The result of the applied test according to the latest testing would be a decline in regulatory capital of the Bank by 11%.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.11. Credit quality of financial assets

The credit quality of financial assets as rated by external agencies is given below:

in thousands of HRK

	Rating agency	31 December 2021	31 December 2020
Cash		**219,199**	**200,953**
Ba1	Moody's	195,272	179,234
A1	Moody's	3,918	3,280
Baa1	Moody's	287	418
Baa2	Moody's	4,010	3,601
BB+	Fitch	-	6,727
BBB+	Fitch	4,103	5,416
BBB	Fitch	9,133	-
No rating	-	2,476	2,277
Receivables from the Croatian National Bank		**83,664**	**85,849**
Ba2	Moody's	-	85,849
Ba1	Moody's	83,664	**-**
Placements with banks		**18,109**	**15,941**
Aaa	Moody's	17,686	15,516
BBB+	Fitch	423	425
No rating	-	-	-
Financial assets at fair value through OCI		**371,949**	**412,226**
Ba1	Moody's	267,575	271,191
Aaa	Moody's	45,971	67,837
Aa2	Moody's	23,085	36,023
Aa3	Moody's	34,885	35,778
No rating	-	433	1,397
Financial assets at fair value through profit or loss		**-**	**434**
No rating	-	-	434
Financial assets at amortised cost		**2,342**	**-**
No rating	-	2,342	-
Loans and advances to customers		**1,076,856**	**1,114,343**
No rating	-	1,076,856	1,114,343
Other financial assets	-	**4,883**	**5,122**
No rating		4,883	5,122

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.12. Concentration risk

The Bank manages, limits and controls concentrations of credit risk in accordance with the Credit Policy wherever such risk is identified – in particular, with respect to individual clients and groups, industries and countries. Concentration is determined at the level of exposure of a particular debtor (at the level of a group of related persons) and also by exposure of a particular activity to the total exposure of the Bank.

The Bank establishes credit risk levels it undertakes by placing limitations on the amount of risk accepted in relation to one client, or a group of clients, and to geographical and industry segments. Limitations on the credit risk level to products, industry sectors and countries are approved by the Bank's Management.

The exposure to any borrower is further limited by sub-limits covering both balance sheet and off-balance sheet exposures, as well as daily limits (the liability settlement risk) in relation to the items traded.

32.13. Liquidity risk

Liquidity risk is the risk of loss arising from the existing or expected Bank's inability to settle its cash liabilities at maturities. This risk arises due to a mismatch of maturities of assets and liabilities, and is manifested as the risk that it will not be possible to convert a receivable into cash within a suitable term and at a suitable price, i.e. that it will not be possible to convert any non-cash form of assets into cash within a certain period without loss.

The Treasury, the Risk Management Department and the Asset-Liability Committee (hereinafter: the ALCO) are responsible for liquidity risk management, while the Bank's Management Board makes decisions, whereby precise roles in the liquidity management process are allocated to the following organisational parts or Bank's functionalities.

The allowed excess of liquidity indicators and the strategy defining the reasons for allowing the excess are documented by the minutes of the ALCO meeting.

At the moment of escalation of exceeding regulatory limits (where applicable), the Risk Management Department immediately informs the Bank's Management Board, the Audit and Risk Committee, the Supervisory Board and the CNB, and if internal limits are exceeded or early warning indicators are reached, the Bank's Management Board and the LICO / ALCO committees are notified. At the relevant meeting of the LICO / ALCO committees, a strategy is adopted to reduce the limits to acceptable proportions

The Risk Management Department controls limits within the monthly report, and reports the exceeding of limits on the ALCO meetings.

Sources of Bank financing are deposits and equity capital. The Bank continually reassesses liquidity risk by identifying and following changes in financing that are necessary for accomplishing business aims set according to Bank strategy. Moreover, the Bank manages a portfolio of liquid assets as part of its liquidity risk management strategy.

The Bank adjusts its operations concerning liquidity risk according to legal provisions and internal policies. The Bank manages assets and sources of funds from a viewpoint of financial flows, cash flows and concentration, all with the aim of adjusting cash inflows with Bank outflows.

Managing in that way assumes identification of known, expected and potential cash outflows and the production of different asset and liabilities management strategies in order to secure the Bank's needs for cash inflows. According to the stated, the liquidity risk management system comprises the evaluation and measurement of liquidity risk exposure, setting limits of liquidity risk exposure and reporting and supervision of limit utilization.

Liquidity risk management is realized by operative management of short-term liquidity and by management of long-term liquidity. Management of short-term liquidity is realized with maintenance of a regular liquidity reserve in HRK and by planning and forecasting daily and weekly cash flows. The Bank produces daily, weekly, monthly and annual liquidity plans and evaluates current and future outflows and inflows based on them.

Indicators related to a possible crisis in the Bank's liquidity and general crisis of the banking system liquidity are monitored by the Risk Management Department and the Treasury, they are determined by the Risk Management Service and reported to the Management Board, Liquidity Committee and/or the Asset-Liability Committee.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.13. Liquidity risk (continued)

Future outflows under financial liabilities that as at 31 December 2021 reflect undiscounted cash flows including future interest payments in the amount of HRK 5,154 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	219,199	-	-	-	-	**219,199**
Receivables from the Croatian National Bank	83,664	-	-	-	-	**83,664**
Placements with banks	-	17,685	424	-	-	**18,109**
Financial assets at fair value through other comprehensive income	29,999	45,370	167,955	19,528	109,097	**371,949**
Financial assets at fair value through profit or loss	51	98	2,193	-	-	**2,342**
Loans and advances to customers	89,566	133,601	88,016	251,277	514,396	**1,076,856**
Trade receivables	1,946	-	-	-	-	**1,946**
Fees and commissions receivable	1,805	-	-	-	-	**1,805**
Receivables for third-party deposits made at court	13	-	-	-	-	**13**
Provisions for expected credit losses on financial assets	(827)	-	-	-	-	**(827)**
Total assets	**425,416**	**196,754**	**258,588**	**270,805**	**623,493**	**1,775,056**
EQUITY AND LIABILITIES						
Liabilities to banks	6,271	-	-	-	-	**6,271**
Demand deposits	664,749	-	-	-	-	**664,749**
Term deposits	61,515	94,532	404,115	284,264	12,820	**857,246**
Borrowings	15,555	187	407	1,004	141,775	**158,928**
Lease liabilities	108	190	833	1,217	261	**2,609**
Trade payables	1,118	-	-	-	-	**1,118**
Fees and commissions payable	137	-	-	-	-	**137**
Total equity and liabilities	**749,453**	**94,909**	**405,355**	**286,485**	**154,856**	**1,691,058**

Off-balance-sheet items	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Payment guarantee	7,098	-	-	-	-	**7,098**
Performance guarantee	3,369	17,093	24,939	38,153	7,859	**91,413**
Unbacked letters of credit	916	252	-	-	-	**1,168**
Revolving loans and credit lines	29,420	-	3,607	75	2,121	**35,223**
Other common risk-bearing off-balance sheet items	292	-	9,803	12,131	25,638	**47,864**
TOTAL OFF-BALANCE SHEET ITEMS	**41,095**	**17,345**	**38,349**	**50,359**	**35,618**	**182,766**
Net assets/liabilities and equity	**(365,132)**	**84,500**	**(185,116)**	**(66,039)**	**433,019**	**(98,768)**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.13. Liquidity risk (continued)

Future outflows under financial liabilities that as at 31 December 2020 reflect undiscounted cash flows including future interest payments in the amount of HRK 5,154 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	200,953	-	-	-	-	**200,953**
Receivables from the Croatian National Bank	85,849	-	-	-	-	**85,849**
Placements with banks	15,516	-	425	-	-	**15,941**
Financial assets at fair value through other comprehensive income	75	253	175,763	60,132	176,003	**412,226**
Financial assets at fair value through profit or loss	-	-	-	-	434	**434**
Loans and advances to customers	94,939	78,088	140,525	235,352	565,439	**1,114,343**
Trade receivables	1,917	-	-	-	-	**1,917**
Fees and commissions receivable	1,871	-	-	-	-	**1,871**
Receivables from domestic legal entities based on paid court costs	557	-	-	-	-	**557**
Receivables for third-party deposits made at court	13	-	-	-	-	**13**
Total assets	**401,690**	**78,341**	**316,713**	**295,484**	**741,876**	**1,834,104**
EQUITY AND LIABILITIES						
Liabilities to banks	4,884	-	-	-	-	**4,884**
Demand deposits	655,111	-	-	-	-	**655,111**
Term deposits	79,295	108,232	522,678	187,448	17,144	**914,797**
Borrowings	37,096	252	544	1,259	142,466	**181,617**
Lease liabilities	72	145	571	1,086	533	**2,407**
Trade payables	850	-	-	-	-	**850**
Fees and commissions payable	140	-	-	-	-	**140**
Liabilities for savings deposit insurance	1,066	-	-	-	-	**1,066**
Total equity and liabilities	**778,514**	**108,629**	**523,793**	**189,793**	**160,143**	**1,760,872**

Off-balance-sheet items	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Payment guarantees	4,787	-	-	-	-	**4,787**
Performance guarantees	2,370	24,174	7,949	18,448	5,703	**58,644**
Unbacked letters of credit	929	8,121	1,088	-	-	**10,138**
Revolving loans and credit lines	46,298	-	118	-	13,232	**59,648**
Other common risk-bearing off-balance sheet items	6,174	-	27,108	9,502	15,471	**58,255**
TOTAL OFF-BALANCE SHEET ITEMS	**60,558**	**32,295**	**36,263**	**27,950**	**34,406**	**191,472**
Net assets/liabilities and equity	**(437,382)**	**(62,583)**	**(243,343)**	**77,741**	**547,327**	**(118,240)**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk

Market risks represent potential effects that external conditions may have on the value of assets, liabilities and off-balance sheet positions of the Bank, and are caused by changes in prices and movements in financial markets.

All instruments held for trading are subject to market risk, the risk that future changes in market conditions can make an instrument unfavourable or lead to value reduction.

The Bank manages financial instruments available for sale according to changes in market conditions. Exposure to market risk is formally managed by buying or selling instruments according to limits set by Management.

Market risk is the risk of loss on balance sheet and off-balance sheet positions arising from unfavourable movements in prices on some of the 4 fundamental markets: debt securities, foreign currencies, commodity and equity securities markets.

Market risks are as follows:

- Interest rate risk
- Currency risk
- Price risk - risk of a change in prices of equity and debt securities

Interest rate risk is defined by the impact of changes in market interest rates on the Bank’s financial results. The Bank’s daily activities depend on the interest rate risk impacted by the terms of collection of assets and liabilities in relation to interest income and expenses or the terms in which interest rates change. These terms are controlled by the ALCO by defining the interest rate limits and coordinating activities that the Bank has to take.

Interest rate risk is described in more detail in chapter 38.3.2. of the Report.

The Bank's activities are exposed to the risk of changes in the value of the main currencies, which impacts the Bank’s financial result and cash flow. The Bank controls foreign currency assets and foreign currency liabilities with the aim to avoid an inadequate currency risk.
The Management Board defined internal limits of the open foreign currency position.

Currency risk is described in more detail in the following chapter of the Report (item 38.3.1.).

Market risk is managed in the Treasury, Risk Management Department and the ALCO, and the Bank’s Management Board is informed and makes decisions.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.1. Currency risk

Currency risk is the risk of loss that results from currency changes.

Exposure to currency risk materializes from holding assets and liabilities and/or off-balance sheet items denominated and/or indexed in foreign currency, or when they are structurally unadjusted in cases of unfavourable movement of the kuna towards international currencies as well as unfavourable mutual movements of currencies.

The currency risk management process includes: identifying the Bank’s exposure to currency risk, measuring currency risk exposure, defining boundaries and limits of currency risk exposure, instruments and processes for risk optimisation, currency risk management process supervision, reporting on the currency risk exposure.

At the end of each working day, the Bank adjusts its total open FX position so that the total open FX position (increased by the position in gold) does not exceed the amount of regulatory capital determined in line with the regulations of the Croatian National Bank.

The Bank uses the Value at Risk methodology (VaR) to evaluate exposure to market risk and expected maximum loss for the position in trading and other activities. VaR represents a statistically based evaluation of potential losses on the existing portfolio due to unfavourable market movements.

The Value at Risk method measures the maximum expected loss for the Bank in case of most unfavourable foreign currency movements in an observed time interval with normal market conditions and a given level of significance based on historical data. The Bank directs its business activities primarily trying to minimize the mismatch between assets' and liabilities' items denominated in foreign currency or carrying a FX clause. The Bank manages its assets and liabilities by matching the currencies of the individual asset and liability items to optimise the relationship between risk and profitability in unfavourable inter-currency movements.

The potential maximum daily loss of the open foreign currency position (VaR: 95% reliability) as of 31 December 2021 amounted to HRK 8.4 thousand (2020: HRK 9.4 thousand).

The sensitivity of currency risk measurement is carried out using monthly stress tests. Stress test is based on the simulation of the exchange rate fluctuation with respect to the openness of the position of the most significant currencies (EUR, USD, CHF, AUD). Data used are based on the historical movements of the Kuna exchange rate according to the 4 most significant currencies mentioned above in the last 2 years.
When performing the testing, 3 levels of intensity are carried out: the geometric mean of the exchange rate fluctuations that exclude extreme fluctuations; 95 percentile or maximum possible exchange rate fluctuation with 95% probability of fluctuation; 99 percentile or maximum possible exchange rate fluctuation with 99% probability of fluctuation.

in thousands of HRK

CURRENCY	LONG/SHORT POSITIONS 31 Dec. 2020	% OF RECOGNISED CAPITAL	Scenario 1	Scenario 2	Scenario 3
EUR - OPEN POSITION	1,417,000	1.24%	530	2,369	5,475
USD - OPEN POSITION	192,000	0.17%	396	1,748	2,744
CHF - OPEN POSITION	41,000	0.04%	47	190	400
AUD - OPEN POSITION	1,000	0.00%	2	12	20
TOTAL			**975**	**4,319**	**8,639**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2021 are presented as follows:

in thousands of HRK

2021	EUR	USD	Other	HRK, currency clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	46,242	1,675	21,289	-	69,206	149,993	219,199
Receivables from the Croatian National Bank	-	-	-	-	-	83,664	83,664
Placements with banks	424	9,965	7,720	-	18,109	-	18,109
Financial assets at fair value through other comprehensive income	104,234	-	-	143,586	247,820	124,129	371,949
Financial assets at amortised cost	-	-	-	-	-	2,342	2,342
Loans and advances to customers	1,487	2,344	-	579,432	583,263	493,593	1,076,856
Trade receivables	-	-	-	-	-	1,946	1,946
Fees and commissions receivable	-	-	-	-	-	1,805	1,805
Receivables for third-party deposits made at court	-	-	-	-	-	13	13
Total assets	**152,387**	**13,984**	**29,009**	**723,018**	**918,398**	**857,485**	**1,775,883**
EQUITY AND LIABILITIES							
Liabilities to banks	587	91	182	-	860	5,411	6,271
Demand deposits	269,875	4,654	15,785	-	290,314	374,435	664,749
Term deposits	576,336	9,336	13,344	-	599,016	254,959	853,975
Borrowings	15,034	-	-	-	15,034	142,041	157,075
Trade payables	-	-	-	-	-	1,118	1,118
Fees and commissions payable	-	-	-	-	-	137	137
Total liabilities	861,832	14,081	29,311	-	905,224	778,101	1,683,325
Net assets/liabilities and equity	(709,445)	(97)	(302)	723,018	13,174	79,384	92,558

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2020 are presented as follows:

in thousands of HRK

2020	EUR	USD	Other	HRK, currency clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	13,627	3,188	19,080	-	35,895	165,058	**200,953**
Receivables from the Croatian National Bank	-	-	-	-	-	85,849	**85,849**
Placements with banks	425	7,981	7,535	-	15,941	-	**15,941**
Financial assets at fair value through other comprehensive income	140,410	-	-	177,455	317,865	94,361	**412,226**
Financial assets at fair value through profit or loss	-	-	-	-	-	434	**434**
Loans and advances to customers	1,780	2,527	81	595,400	599,788	514,555	**1,114,343**
Fees and commissions receivable	-	-	-	-	-	1,917	**1,917**
Trade receivables	-	-	-	-	-	1,871	**1,871**
Receivables from domestic legal entities based on paid court costs	-	-	-	-	-	557	**557**
Receivables for third-party deposits made at court	-	-	-	-	-	13	**13**
Total assets	**156,242**	**13,696**	**26,696**	**772,855**	**969,489**	**864,615**	**1,834,104**
EQUITY AND LIABILITIES							
Liabilities to banks	566	84	178	-	828	4,056	**4,884**
Demand deposits	259,028	5,071	11,215	-	275,314	379,797	**655,111**
Term deposits	619,600	9,746	15,451	-	644,797	266,781	**911,578**
Borrowings	36,931	-	-	363	37,294	142,387	**179,681**
Trade payables	-	-	-	-	-	850	**850**
Fees and commissions payable	-	-	-	-	-	140	**140**
Liabilities for savings deposit insurance	-	-	-	-	-	1,066	**1,066**
Total liabilities	**916,342**	**14,901**	**26,844**	**363**	**958,223**	**795,077**	**1,753,310**
Net assets/liabilities and equity	(759,883)	(1,205)	(148)	772,492	11,256	68,479	79,735

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.2. Interest rate risk

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. This risk arises due to a mismatch of assets and liabilities with respect to their type, base and amount of interest rates.

The risk of interest rate change is the risk of a decrease in net interest income due to changes in interest rates and a decrease in the economic value of capital due to changes in interest rates.

Interest rate risk is the result of a temporary mismatch in the revaluation of assets, liabilities and off-balance sheet items; early repayment of loans, deposit withdrawal (term and without term) or the difference in the movements of active and passive interest rates (basic (primary) risk).

The Bank's operations are subject to the risk of interest rate changes to the extent that interest-bearing assets and liabilities mature or their interest rates change in different periods or in different amounts. Risk management activities are directed to optimizing net interest income according to the Bank's business strategy, at the given market rates.

Activities of managing “asset-liability” risks are performed in the context of the Bank's sensitivity to interest rate changes. Exposure to risk of interest rate changes is a consequence of assets' and liabilities' items mismatch considering the possibility of interest rate changes, and it is supervised by applying an analysis of the assets' and liabilities' mismatch. The aim of interest rate risk management is to secure an optimal and stable net interest margin, and thus net profit. Interest rate risk is minimized by accepting deposits and approving loans as well as with investments carrying fixed interest rates.

The main elements of the interest rate risk management are as follows:

- interest rate risk sensitivity analysis;
- establishing internal limits and boundaries (limit of a decrease in economic value or maturity periods);
- control of performing/fulfilling/meeting the set limits;
- testing the resistance to stress for interest rate risk and the analysis of the results obtained;
- introducing hedging operations if required.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.2. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2021, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest-bearing	Total
ASSETS							
Cash	-	-	-	-	-	219,199	219,199
Receivables from the Croatian National Bank	-	-	-	-	-	83,664	83,664
Placements with banks	-	17,685	424	-	-	-	18,109
Financial assets at fair value through other comprehensive income	29,999	45,370	167,953	19,528	109,099	-	371,949
Financial assets at amortised cost	-	-	-	-	-	2,342	2,342
Loans and advances to customers	217,479	358,766	321,550	68,651	110,410	-	1,076,856
Trade receivables	-	-	-	-	-	1,946	1,946
Fees and commissions receivable	-	-	-	-	-	1,805	1,805
Receivables for third-party deposits made at court	-	-	-	-	-	13	13
Total assets	**247,478**	**421,821**	**489,927**	**88,179**	**219,509**	**308,969**	**1,775,883**
EQUITY AND LIABILITIES							
Liabilities to banks	6,271						**6,271**
Demand deposits	155,045	22,386	131,326	167,544	167,544	20,904	**664,749**
Term deposits	66,451	90,531	389,768	283,844	11,220	12,161	**853,975**
Borrowings	15,550	179	377	969	140,000		**157,075**
Trade payables						1,118	**1,118**
Fees and commissions payable						137	**137**
Total liabilities	**243,317**	**113,096**	**521,471**	**452,357**	**318,764**	**34,320**	**1,683,325**
Net assets/liabilities and equity	**4,161**	**308,725**	**-31,544**	**-364,178**	**-99,255**	**274,649**	**92,558**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.2. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2020, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest-bearing	Total
ASSETS							
Cash	-	-	-	-	-	200,953	**200,953**
Receivables from the Croatian National Bank	-	-	-	-	-	85,849	**85,849**
Placements with banks	15,941	-	-	-	-	-	**15,941**
Financial assets at fair value through other comprehensive income	-	-	184,367	59,165	168,694	-	**412,226**
Financial assets at fair value through profit or loss	-	-	-	-	-	434	**434**
Loans and advances to customers	176,867	373,484	336,469	74,761	121,470	31,292	**1,114,343**
Trade receivables	-	-	-	-	-	1,871	**1,871**
Fees and commissions receivable	-	-	-	-	-	1,917	**1,917**
Receivables from domestic legal entities based on paid court costs	-	-	-	-	-	557	**557**
Receivables for third-party deposits made at court	-	-	-	-	-	13	**13**
Total assets	**192,808**	**373,484**	**520,836**	**133,926**	**290,164**	**322,873**	**1,834,091**
EQUITY AND LIABILITIES							
Liabilities to banks	4,884	-	-	-	-	-	**4,884**
Demand deposits	24,629	-	-	-	-	4,441	**655,111**
Term deposits	78,575	106,927	519,322	185,856	16,920	3,978	**911,578**
Borrowings	175,422	239	499	1,183	671	1,667	**179,681**
Lease liabilities	-	-	-	-	-	850	**850**
Other liabilities	-	-	-	-	-	140	**140**
Provisions	-	-	-	-	-	1,066	**1,066**
Total liabilities	**283,510**	**107,166**	**1,145,862**	**187,039**	**17,591**	**12,142**	**1,753,310**
Net assets/liabilities and equity	**(90,702)**	**266,318**	**(625,026)**	**(53,113)**	**272,573**	**310,731**	**80,781**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risk (continued)

32.14.2. Interest rate risk (continued)

The table below summarises effective interest rates for interest-bearing assets and liabilities.

in thousands of HRK

	2021	2020
	in %	*in %*
Assets		
Cash	(0.50)-0.00	(0.50)-0.00
Placements with banks	(0.90)-0.20	(0.90)-1.30
Financial assets at fair value through other comprehensive income	0.00-2.00	0.00-6.50
Loans and advances to customers	2.10-6.90	2.10-7.10
Equity and liabilities		
Liabilities to banks	(0.10)-0.00	0.01-0.03
Demand deposits	0.00-0.05	0.00-0.05
Term deposits	0.01-1.20	0.01-1.45
Borrowings	1.00-4.00	0.00-1.20

32.14.3. Price risk

Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The risk is managed by setting maximum volumes, limits and other restrictions. The Bank manages this risk by regularly measuring, monitoring and reporting on the duration and prescribed limits according to the financial asset model fair value through OCI and at amortised cost.

Stress testing interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. For the purposes of the stress tests, the Bank uses a simplified calculation of the changes in the economic value of the banking book, as defined in the Decision on interest rate risk in the banking book.

The Bank performs the shock-test to determine the impact of a one-off increase or decrease of interest rates by 100 basis points over a one-year period. As at 31 December 2021, it amounted to HRK 5,416 thousand or 11.33% (2020: HRK 3,135 thousand or 6.91%). The impact relates to the impact of the interest gap on the expected annual interest margin at 100 basis points. Potential risk is due to premature repayment of asset items due to the potential downward interest rates movement of the competition together with the equity and liabilities contracted for a longer term at a fixed interest rate.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.15. Market risk measurement techniques

Measurement techniques used for measuring and controlling market risks are the Value at Risk (VaR) method and stress tests.

VaR method

The VaR method measures the Bank's maximum loss (the maximum expected loss) in case of unfavourable movements in FX exchange rates in a set time interval under normal market conditions and the set level of reliability on the basis of historical data.

Currency exposure limits

The Bank defines its basic position limit by maintaining the open foreign currency position within 2% of eligible capital, i.e. the targeted open foreign currency position on the last day of the month is less than 2% of eligible capital.

Within a month, the Bank may use the following position limits as follows, provided that:

- the total open FX position does not exceed 25% of the Bank's regulatory capital,
- the maximum allowed open FX position in EUR amounts to 20% of the regulatory capital,
- the maximum allowed open FX position in USD amounts to 10% of the regulatory capital,
- the maximum allowed open FX position by individual currencies, other than EUR and USD, amounts to 5% of the regulatory capital.

	Internal limit	**At 31 December 2021**
Bank's total open FX position	25.00%	1.66%
Maximum open FX position in EUR	20.00%	2.37%
Maximum open FX position in USD	10.00%	0.17%
Maximum open FX position in other currencies	5.00%	0.26%

Daily VAR calculation

In accordance with the provisions of the Basel II agreement on market risk measurement, the Bank has opted for the VaR method for calculating its FX position exposure to changes in foreign currency exchange rates (the impact of unfavourable movements in rates on the amount of open FX position).
For calculating VAR, the Bank develops the application of the Variance-Covariance Model, which implies the assessment of the present open risk on the basis of movements in exchange rates.
The Risk Management Department reports on the Bank's FX Department under Value-at-Risk methodology on a daily basis, and to the ALCO at their meetings.

Stress tests

Stress testing is a risk management technique used for assessing potential impacts of specific events and/or changes in several risk factors on the Bank's financial position.
The purpose of the stress testing is to determine whether the Bank has an appropriate level of capital in case of the occurrence of specific events and/or changes in several risk factors. These are unfavourable events that are difficult to foresee (extreme, but possible) and that impact the Bank's capital, risk profile and profit. The stress test may be divided into the scenario analysis and sensitivity analysis.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.15. Market risk measurement techniques (continued)

The scenario analysis is a type of stress test which estimates the impact of simultaneous changes of several risk factors on the Bank's financial position in clearly defined stress circumstances. The sensitivity analysis is a type of stress test which estimates the impact of a particular risk factor on the Bank's financial position without the stress cause being identified. The stress test is performed semi-annually.

In performing liquidity stress tests, the Bank assumes a liquidity shock on the market, such as deposit withdrawal or inability to place on the market the instruments the Bank possesses without incurring significant loss. In doing so, potential outflows are estimated under scenario and sensitivity analyses. In defining a scenario, the Bank considers the circumstances that may arise upon the expiry of a significant volume of deposits or losing a part of its unsecured sources of funding, including deposits from major customers etc. The baseline scenarios used for the purpose of the analysis, with individual factors having two levels of disturbance intensity, are defined as follows:
1) Internal crisis of the Bank,
2) Market crisis
3) A combination of both.

VaR is not used in performing liquidity stress tests, as in extreme circumstances the losses exceed the expected losses in a much larger number of instances than envisaged using VaR.

Stress testing interest rate risk in the banking book

Interest rate risk is the risk arising from non-trading book activities (hereinafter: IRRBB) is the current or prospective risk to both the earnings and the economic value arising from adverse movements in interest rate that affect interest rate sensitive instruments, including gap risk, basis risk and option risk.

When performing stress testing, the Bank uses the gap analysis of the impact of the interest rate gap on the expected annual interest margin with a parallel interest rate shock of 100 basis points. The interest margin loss is calculated for currencies that make up at least 5% of the total balance sheet.

The limit defining the impact on the annual interest margin is 12% of total net interest income.

The change in economic value in relation to regulatory capital/Tier 1 capital, calculated according to the methodology of the Croatian National Bank as at 31 December 2021, is as follows:

	Internal limit	Internal early warning system	31 December 2021
Δ EVE – regulatory shocks/Regulatory capital	< 16%	>16%	0.35%
Δ EVE – 6 additional shocks/Tier 1 capital	< 11%	>11%	9.94%
Annual interest margin loss/Net interest income	12%	8%	11.33%

32.16. Operational risk

The Bank is exposed to operational risk in all its business activities. The objective of operational risk management is to identify all occurrences of operational risk, to control and minimise operational risk exposure.

The Bank seeks to achieve optimum operational risk management in accordance with the principles defined by the Bank's regulator and policies, with a view to mitigating and avoiding operational risks. In this regard, the Bank collects data on operational risk events, monitors key risk indicators, conducts scenario analysis, assesses operational risk in its operations, reports to Management on operational risk exposure and proposes measures to reduce, avoid and transfer operational risk. Operational risk does not have a material effect on the Bank's operations.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received from selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date, the so-called exit price. Financial assets measured at fair value through other comprehensive income are stated at fair value.

The table below summarises the year-end fair value estimates made by the Management Board.

in thousands of HRK

	Carrying amount		Fair value	
	2021	**2020**	**2021**	**2020**
Financial assets				
Cash	219,199	200,953	219,199	200,953
Receivables from the Croatian National Bank	83,664	85,849	83,664	85,849
Placements with banks	18,109	15,941	18,109	15,941
Loans and advances to customers	1,076,856	1,114,343	1,058,217	1,084,208
Financial assets at FV through OCI	371,949	412,226	371,949	412,226
Financial assets at FV through P&L	-	434	-	434
	2,342	-	2,342	-
Financial liabilities				
Deposits from banks				
Deposits from customers	6,271	4,884	6,271	4,884
Borrowings	1,518,724	1,566,689	1,518,572	1,564,803

Loans and receivables from customers and deposits from customers represent aggregate balances received from/owed to corporate and retail customers that bear interest at different average variable rates, and their effects are presented separately in the following tables.

in thousands of HRK

Corporate customers	Carrying amount		Fair value	
	2021	**2020**	**2021**	**2020**
Financial assets				
Loans and receivables from customers	655,137	694,041	654,173	692,160
Financial liabilities				
Deposits from customers	375,649	397,791	375,571	397,720

Retail	Carrying amount		Fair value	
	2021	**2020**	**2021**	**2020**
Financial assets				
Loans and receivables from customers	421,719	420,302	404,044	392,048
Financial liabilities				
Deposits from customers	1,143,075	1,168,898	1,143,001	1,167,083

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

in thousands of HRK

The table below summarises the fair value hierarchy of financial assets and liabilities:

		2021			2020	
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Cash	17,208	201,991	-	20,181	180,772	-
Receivables from the Croatian National Bank	-	83,664	-		85,849	-
Placements with banks	-	18,109	-		15,941	-
Loans and receivables from customers	-	1,076,856	-		1,114,343	-
Financial assets at FV through OCI	174,054	197,699	196	236,317	175,415	494
Financial assets at FV through P&L	-	-	-	-	434	-
Financial assets at amortised cost	-	2,342	-	-	-	-
Financial liabilities						
Deposits from banks	-	6,271	-	-	4,884	-
Deposits from customers	-	664,749	-	-	655,111	-
Loans taken	-	853,975	-	-	911,578	-
Borrowings	-	157,075	-	-	179,681	-

An overview of key methods and assumptions used in estimating the fair values of financial instruments is set out below.

Loans and receivables from banks

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents the discounted amount of future cash flows. Future cash flows are discounted using the current market rates to arrive at the fair value of those assets.

Loans and receivables from customers

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows. Future cash flows are discounted using current market rates to arrive at their fair value. Future expected losses are not considered, and no adjustment is performed to reflect any amounts doubtful of collection (including timing uncertainty) for exposures under due and reprogrammed amounts as well as under exposures not yet due but required to be monitored more closely.

Deposits from banks

The fair value estimate of fixed-maturity deposits is based on expected cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time.

Due to their short maturity, Management considers that their carrying amounts do not differ from their fair values.

Deposits from customers

The fair value estimate of fixed-maturity deposits is based on cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time. The value of client relationships is not taken into account in fair value evaluation.

34. CAPITAL MANAGEMENT

The main goal in managing the Bank's capital is to ensure the compliance with all regulatory capital requirements and maintain the credit rating and total capital rate to improve operations.

The Bank manages its capital structure and adjusts it in accordance with changes in economic conditions and the characteristics of its business risks.

In managing capital, the Bank also follows the principles of:

- Compliance with all legally prescribed capital requirements
- Maintaining the Bank's ability to continue as a going concern and achieve the Bank's objectives
- Maintaining a strong capital base that will enable a continued and sustainable development with the aim to achieve positive results in the income statement.

The Bank's regulatory capital and the total capital rate, calculated in accordance with the requirements of Regulation (EU) No. 575/2013 only for the Bank, were as follows:

in thousands of HRK

	31 December 2021	31 December 2020
Regulatory capital		
Tier 1 capital		
Issued share capital	474,600	474,600
Share premium	-	-
Accumulated loss	(355,160)	(364,530)
Legal, statutory and other reserves	-	-
Deductions according to the Regulation (EU) No. 575/2013 /i/	(4,969)	(530)
Total Tier 1 capital	114,471	109,540
Additional capital	-	-
Total additional capital	-	-
Deductions from investments in banks and other financial institutions	-	-
Total regulatory capital	**114,471**	**109,540**

/i/ The amount includes intangible assets, unrealised losses on financial assets at fair value through other comprehensive income and 0.1% on the entire portfolio of financial assets and liabilities measured at fair value.

At 31 December 2021, the Bank's regulatory capital amounted to HRK 114,471 thousand (2020: HRK 109,540 thousand).

34. CAPITAL MANAGEMENT (CONTINUED)

in thousands of HRK

	31 December 2021	31 December 2020
Total capital ratio according to Regulation EU No. 575/2013		
Capital requirements		
Credit risk exposure	48,055	49,112
Balance sheet items	*46,008*	*47,010*
Off-balance sheet items	*2,047*	*2,102*
Currency risk exposure	-	-
Operational risk exposure	9,535	9,284
Capital requirements for total capital ratio	**57,590**	**58,396**
Additional capital requirements		
Capital requirements for prescribed additional capital rate	22,964	23,286
Capital conservation buffer	17,997	18,249
Systemic risk buffer	10,798	10,949
Total capital requirements	**109,349**	**110,880**
Common Equity Tier 1 capital ratio	**15.90%**	**15.01%**
Tier 1 capital ratio	**15.90%**	**15.01%**
Total capital ratio	**15.90%**	**15.01%**

The comparative information presents the total capital ratio in accordance with the requirements of Regulation (EU) No. 575/2013. As at 31 December 2021, the total capital ratio was 15.90% (2020: 15.01%).

As at 31 December 2021, the Bank meets all capital requirements, while as at 31 December 2020 the Bank did not meet all capital requirements (the prescribed minimum total capital ratio was 15.19%). In 2021, the Bank activated a new Capital Conservation Plan in accordance with the by-laws defining procedures in cases of non-compliance with capital requirements, which was approved by the CNB. In 2021, the Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB.

Legal reserves

The Companies Act requires that 5% of profit for the year is added to this reserve until 5% of issued share capital is reached. The legal reserve, amounting to 5% of the issued share capital, may be used to cover the current and prior year losses.

Fair value reserve

The fair value reserve includes unrealized gains and losses on changes in fair value of financial assets through other comprehensive income as well as foreign exchange differences resulting from non-monetary financial assets through other comprehensive income.

Accumulated loss

Accumulated loss includes losses accumulated from previous years.

35. CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The concentration of assets, liabilities and off-balance sheet items is presented below:

						in thousands of HRK
	31 December 2021			31 December 2020		
	Assets	Liabilities	Off-balance sheet items	Assets	Liabilities	Off-balance sheet items
Geographical region						
Republic of Croatia	1,733,880	1,767,949	182,757	1,759,451	1,828,435	191,460
Europe	109,529	34,888	0	146,496	34,355	6
Other	17,770	58,342	10	15,553	58,710	7
Total by geographical region	**1,861,179**	**1,861,179**	**182,767**	**1,921,500**	**1,921,500**	**191,473**
Sector						
Republic of Croatia (state)	294,585	25,004	1,532	300,540	22,878	3,255
Croatian National Bank	238,643	262,766	0	220,997	232,342	-
Trade and commerce	60,074	32,495	12,992	72,141	25,685	29,220
Finance	80,350	61,702	2,983	78,457	88,180	2,678
Tourism	17,196	2,344	499	22,528	2,130	78
Agriculture	103,375	7,099	8,440	86,580	8,809	5,152
Industry	523,375	36,109	105,361	530,971	33,542	91,656
Individuals	350,360	1,136,026	16,674	357,240	1,156,704	16,254
Other	193,221	297,634	34,286	252,046	351,230	43,180
Total by sector	**1,861,179**	**1,861,179**	**182,767**	**1,921,500**	**1,921,500**	**191,473**

36. EVENTS AFTER THE BALANCE SHEET DATE

As at 31 December 2021, the Bank meets all capital requirements (the prescribed minimum total capital ratio amounts to 15.19%). Based on the annual SREP performance assessment conducted by the CNB, the new minimum total capital ratio will amount to 14.74% and shall apply as of 1 February 2022.

In late February 2022, the war in Ukraine began, as a result of which sanctions were imposed on Russia by the Western World, and the Bank considered the impact of the war on its operations. The Bank has no direct exposure to the Russian and Ukrainian markets. Due to the overall uncertainty related to the war in Ukraine, at present it is not possible to assess the overall effects on the economy and potential spillover effects on the Bank's operations. However, at this time the Bank does not expect any significant effects on the Bank's operations.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK

The basic financial statements provided below were prepared within the reporting framework and the basic financial statements stipulated by the CNB's Decision on the structure and content of annual financial statements of banks (hereinafter referred to as the 'Decision').

Statement of financial position (Balance sheet)

as at 31 December 2021

BAN-BIL form

Entity: CROATIA BANKA d.d.				
Description	AOP mark	No. no.	Previous year (net)	Current year (net)
1	2	3	4	5
Assets				
1. Cash, cash receivables from central banks and other demand deposits (AOP 002 to 004)	001		200,953,482	219,198,403
1.1. Cash on hand	002		20,129,033	15,951,434
1.2. Cash receivables from central banks	003		159,104,926	179,320,295
1.3. Other demand deposits	004		21,719,523	23,926,674
2 Financial assets held for trading (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 that are not traded and that must be carried at fair value through profit or loss (AOP 011 to 013)	010		434,448	0
3.1. Equity instruments	011		0	0
3.2. Debt securities	012		0	0
3.3. Loans and advances	013		434,448	0
4. Financial assets at fair value through profit or loss (AOP 015 to 016)	014		0	0
4.2. Debt securities	015		0	0
4.3. Loans and advances	016		0	0
5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)	017		412,226,973	371,950,621
5.1. Equity instruments	018		493,926	196,281
5.1. Debt securities	019		411,733,047	371,754,340
5.2. Loans and advances	020		0	0
6. Financial assets at amortised cost (AOP 022+023)	021		1,239,804,153	1,205,252,626
6.1. Debt securities	022		0	2,331,564
6.2. Loans and advances	023		1,239,804,153	1,202,921,062
7. Derivatives - hedge accounting	024		0	0
8. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	025		0	0
9. Investments in subsidiaries, joint ventures and associates	026		0	0
10. Tangible assets	027		47,186,051	43,849,384
11. Intangible assets	028		2,710,638	3,519,253
12. Tax assets	029		839,452	3,274,448
13. Other assets	030		21,972,605	20,117,268
14. Non-current assets and disposal groups held for sale	031		0	0
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 to 031)	032		1,926,127,802	1,867,162,003

Position	AOP mark	No. no.	Previous year (net)	Current year (net)
1	2	3	4	5
				Liabilities
16. **Financial liabilities held for trading** (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. Debt securities issued	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. Debt securities issued	041		0	0
17.3. Other financial liabilities	042		0	0
18. **Financial liabilities at amortised cost** (AOP 044 to 046)	043		1,753,588,990	1,684,697,586
18.1. Deposits	044		1,751,046,282	1,681,956,719
18.2. Debt securities issued	045		0	0
18.3. Other financial liabilities	046		2,542,708	2,740,867
19. Derivatives - hedge accounting	047		0	0
20. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	048		0	0
21. Provisions	049		48,989,622	51,107,193
22. Tax payable	050		274,375	271,021
23. Share capital repayable on demand	051		0	0
24. Other liabilities	052		12,547,488	12,936,832
25. Liabilities of disposal groups held for sale	053		0	0
26. **TOTAL LIABILITIES** (AOP 033 + 039 + 043 + 047 to 053)	054		1,815,400,475	1,749,012,632
Capital				
27. Share capital	055		474,600,000	474,600,000
28. Share premium	056		0	0
29. Issued equity instruments except for equity	057		0	0
30. Other equity instruments	058		0	0
31. Accumulated other comprehensive income	059		657,030	-1,290,853
32. Retained earnings	060		-369,444,779	-364,484,097
33. Revaluation reserves	061		0	0
34. Other reserves	062		0	0
35. Treasury shares	063		0	0
36. Profit or loss attributable to owners of the parent company	064		4,915,076	9,324,321
37. Dividends for the year	065		0	0
38. Minority (non-controlling) interests	066		0	0
39. **TOTAL EQUITY** (AOP 055 to 066)	067		110,727,327	118,149,371
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	068		1,926,127,802	1,867,162,003

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement for the period from 1 January 2021 to 31 December 2021 - BAN-RDG form

Entity: CROATIA BANKA d.d.				
Position	AOP mark	No. no.	Previous year	Current year
1	2	3	4	5
1. Interest income	069		52,062,859	50,296,155
2. Interest expense	070		5,330,020	4,503,761
3. Expenses from share capital repayable on demand	071		0	0
4. Dividend income	072		0	0
5. Fee and commission income	073		10,576,453	11,761,986
6. Fee and commission expense	074		3,313,846	3,197,817
7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	075		1,239,805	-228,232
8. Gains or losses on financial assets and liabilities held for trading, net	076		2,090,376	2,583,119
9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net	077		0	-158,724
10. Gains or losses on financial assets and liabilities at fair value through profit or loss, net	078		0	0
11. Hedging gains/losses, net	079		0	0
12. Foreign exchange gains or losses, net	080		334,531	-90,892
13. Gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, net	081		0	0
14. Gains or losses on derecognition of non-financial assets, net	082		0	0
15. Other operating income	083		8,741,397	10,941,658
16. Other operating expenses	084		246,934	274,158
17. TOTAL OPERATING INCOME; NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	085		66,154,621	67,129,334
18. Administrative expenses	086		45,502,901	45,575,553
19. Contributions in cash to rehabilitation committees and deposit insurance schemes	087		4,272,955	15,033
20. Depreciation and amortisation	088		4,112,766	2,420,989
21. Gains or losses on changes, net	089		-32,647	-10,935
22. Provisions or reversal of provisions	090		716,461	3,201,972
23. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss	091		6,384,826	8,441,254
24. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	092		0	0
25. Impairment or reversal of impairment of non-financial assets	093		150,392	259,335
26. Negative goodwill recognised in profit or loss	094		0	0
27. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method	095		0	0
28. Gains or losses on non-current assets and disposal group classified as held for sale not qualifying for classification as discontinued operations	096		0	0
29. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094)	097		4,981,672	7,204,263
30. Tax expense or income relating to profit or loss from continuing operations	098		66,597	-2,120,056

Position	AOP mark	No. no.	Previous year	Current year
1	2	3	4	5
31. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**099**		4,915,076	9,324,319
32. Profit or loss after tax from discontinued operations (AOP 099 - 100)	**100**		0	0
32.1. Profit or loss before tax from discontinued operations	**101**		**0**	0
32.2. Tax expense or income relating to discontinued operations	**102**		0	0
33. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**103**		4,915,076	9,324,319
34. Attributable to minority (non-controlling) interest	**104**			
35. Attributable to owners of the parent company	**105**			
STATEMENT OF OTHER COMPREHENSIVE INCOME				
1. Profit or loss for the year (AOP 101)	**106**		4,915,076	9,324,319
2. Other comprehensive income (AOP 106 to 118)	**107**		-1,347,320	-1,947,883
2.1. Items that will not be reclassified to profit or loss (AOP 107 to 113 + 116 + 117)	**108**		0	0
2.1.1. Tangible assets	**109**		0	0
2.1.2. Intangible assets	**110**		0	0
2.1.3. Actuarial gains or losses on defined benefit pension plans	**111**		0	0
2.1.4. Non-current assets and disposal groups held for sale	**112**		0	0
2.1.5. Share of other recognised income and expenses from entities accounted for using the equity method	**113**		0	0
2.1.6. Changes in fair value of equity instruments carried at fair value through other comprehensive income	**114**		0	0
2.1.7. Gains or losses on hedge accounting of equity instruments carried at fair value through other comprehensive income, net	**115**		0	0
2.1.8. Changes in fair value of equity instruments carried at fair value through other comprehensive income	**116**		0	0
2.1.9. Changes in fair value of equity instruments carried at fair value through other comprehensive income (hedging instrument)	**117**		0	0
2.1.10. Changes in fair value of financial liabilities carried at fair value through profit or loss attributable to changes in credit risk	**118**		0	0
2.1.11. Income tax relating to items that will not be reclassified	**119**		0	0
2.2. Items that may be reclassified to profit or loss (AOP 119 to 126)	**120**		-1,347,320	-1,947,883
2.2.1. Net investment in foreign operations hedge (effective share)	**121**		0	0
2.2.2. Foreign currency translation	**122**		0	0
2.2.3. Cash flow hedges (effective share)	**123**		0	0
2.2.4. Hedging instruments (not determined elements)	**124**		0	0
2.2.5. Debt instruments at fair value through other comprehensive income	**125**		-1,463,231	-2,359,214
2.2.6. Non-current assets and disposal groups held for sale	**126**		0	0
2.2.7. Share of other recognised income and expenses from investments in subsidiaries, joint ventures and associates	**127**		0	0
2.2.8. Income tax on items that may be reclassified to profit or loss	**128**		115,911	411,331
3. Total comprehensive income for the year (AOP 104 + 105 and AOP 128 + 129)	**129**		3,567,756	7,376,436
4. Attributable to minority (non-controlling) interest	**130**			
5. Attributable to owners of the parent company	**131**			

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Statement of cash flows (indirect method) - BAN-NTI form

Entity; CROATIA BANKA d.d.				
Position	AOP mark	No. no.	Previous year	Current year
1	2	3	4	5
Operating activities and adjustments				
1. Profit/loss before tax	001		4,981,673	7,204,265
2. Impairment losses and provisions	002		7,496,938	12,059,623
3. Depreciation and amortisation	003		4,112,766	2,407,890
4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	004		-3,330,181	-2,354,887
5. Gains/losses on sale of tangible assets	005		-2,538,322	-3,048,134
6. Other non-cash items	006		-680,051	2,238,555
Movements in assets and liabilities from operating activities				
7. Deposits with CNB	007		34,792,769	2,187,626
8. Deposits with financial institutions and loans to financial institutions	008		0	0
9. Loans and advances to other customers	009		-35,579,853	-92,864,089
10. Securities and other financial instruments at fair value through other comprehensive income	010		35,337,509	35,124,294
11. Securities and other financial instruments held for trading	011		0	0
12. Securities and other financial instruments not actively traded but carried at fair value through profit or loss	012		0	0
13. Securities and other financial instruments mandatorily carried at fair value through profit or loss	013		0	0
14. Securities and other financial instruments carried at amortised cost	014		1,210,109	-2,367,562
15. Other assets from operating activities	015		4,242,559	79,963,678
Increase/decrease in operating liabilities				
16. Deposits from financial institutions	016		-13,321,135	1,387,065
17. Transaction accounts of other customers	017		-13,315,566	-362,610
18. Savings deposits of other customers	018		-440,041	10,000,451
19. Term deposits of other customers	019		-48,666,584	-58,961,005
20. Derivative financial liabilities and other trading liabilities	020		0	0
21. Other liabilities	021		-4,277,230	385,989
22. Outstanding interest from operating activities	022		53,662,238	48,365,206
23. Dividend received from operating activities	023		0	0
24. Interest paid from operating activities	024		-490,570	-740,532
25. Income tax paid	025		0	0
A) Net cash flows from operating activities (AOP 001 to 025)	026		23,197,028	40,625,823
Investing activities				
1. Proceeds from sale/payments for purchases/of tangible and intangible assets	027		5,061,961	4,441,032
2. Proceeds from sale/payments for purchases/investments in subsidiaries, jointventures and associates	028		0	0
3. Proceeds from collection/payments for purchases/of securities and other financial instruments from investing activities	029		0	0
4. Dividends received from investing activities	030		0	0
5. Other proceeds/payments from investing activities	031		0	0
B) Net cash flows from investing activities (AOP 027 to 031)	032		5,061,961	4,441,032
Financing activities				
1. Net increase/decrease in borrowings from financing activities	033		19,555,861	-22,754,485
2. Net increase/decrease in issued debt securities	034		0	0
3. Net increase/decrease in instruments of additional capital	035		0	0
4. Share capital increase	036		0	0
5. Dividend paid	037		0	0
6. Other proceeds/payments from financing activities	038		-2,228,327	-1,663,712
C) Net cash flows from financing activities (AOP 033 to 038)	039		17,327,534	-24,418,197
D) Net increase/decrease in cash and cash equivalents (AOP 026+032+039)	040		45,586,523	20,648,658
Cash and cash equivalents at beginning of year	041		171,514,443	216,893,966
Effects of foreign currency exchange rate fluctuations on cash and cash equivalents	042		0	-234,000
Cash and cash equivalents at end of year (AOP 040+041+042)	043		217,100,966	237,308,624

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

CHANGES IN EQUITY for the period from 1 January 2021 to 31 December 2021 - BANK-PK form

Position description	AOP mark	No. no.	Attributable to equity holders of the parent											Minority interest		Total
			Equity	Share premium	Issued equity instruments except for equity	Other equity stakes	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit/ loss attributable to owners of the parent company	Dividends for the year	Accumulated other comprehensive income	Other items	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17(4 to 16)
1. Opening balance (before restatement)	**01**		**474,600,000**	**0**	**0**	**0**	**657,030**	**-369,444,779**	**0**	**0**	**0**	**4,915,076**	**0**	**0**	**0**	**110,727,327**
2. Effects of corrections of errors	**02**															
3. Efects of changes in accounting policies	**03**															
4. Opening balance (current period) (AOP 01 to 03)	**04**		**474,600,000**	**0**	**0**	**0**	**657,030**	**-369,444,779**	**0**	**0**	**0**	**4,915,076**	**0**	**0**	**0**	**110,727,327**
5. Issue of ordinary shares	**05**															0
6. Issue of preference shares	**06**															0
7. Issue of other equity instruments	**07**															0
8. Execution or expiry of other issued equity instr.	**08**															0
9. Debt to equity swaps	**09**															0
10. Capital reduction	**10**															0
11. Dividends	**11**															0
12. Purchase of treasury shares	**12**															0
13. Sale or extinguishment of treasury shares	**13**															0
14. Reclassification of financial instruments from equity instruments to liabilities	**14**															0
15. Reclassification of financial instruments from liabilities to equity instruments	**15**															0
16. Transfers between equity instr. components	**16**							4,915,076				-4,915,076				0
17. Increase or decrease in equity instruments resulting from business combinations	**17**															0
18. Share-based payments	**18**															0
19. Other increase or decrease in equity instruments	**19**							45,607								**45,607**
20. Total comprehensive income for the year	**20**						-1,947,882					9,324,321				**7,376,439**
21. Closing balance (current period) (AOP 04 to 20)	**21**		**474,600,000**	**0**	**0**	**0**	**-1,290,852**	**-364,484,096**	**0**	**0**	**0**	**9,324,321**	**0**	**0**	**0**	**118,149,373**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2021

Mismatches of items in the balance sheet disclosed in the Annual Report in relation to the standard prescribed in CNB's Decision relate to the following categories:

in thousands of HRK

Item		CNB Decision	Annual Report	Difference
1. Cash, cash receivable from central banks and other demand deposits	**001**	**219,198**	**320,972**	**(101,774)**
1.1. Cash on hand	002	15,951	-	15,951
1.2. Cash receivables from central banks	003	179,320	-	179,320
1.3. Other demand deposits	004	23,927	-	23,927
Cash		-	219,199	(219,199)
Receivables from the Croatian National Bank		-	83,664	(83,664)
Placements with banks		-	18,109	(18,109)
2. Financial assets held for trading (AOP 006 to 009)	**005**	**-**	**-**	**-**
2.1. Derivatives	006	-	-	-
2.2. Equity instruments	007	-	-	-
2.3. Debt securities	008	-	-	-
2.4. Loans and advances	009	-	-	-
3. Financial assets that are not traded and mandatorily carried at fair value through profit or loss (AOP 011 to 013)	**010**	**-**	**-**	**-**
3.1. Equity instruments	011	-	-	-
3.2. Debt securities	012	-	-	-
3.3. Loans and advances	013	-	-	-
Financial assets at fair value through profit or loss		-	-	-
4. Financial assets at fair value through profit or loss (AOP 015+016)	**014**	**-**	**-**	**-**
4.2. Debt securities	015	-	-	-
4.3. Loans and advances	016	-	-	-
5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)	**017**	**371,949**	**371,949**	**-**
5.1. Equity instruments	018	196	-	196
5.1. Debt securities	019	371,753	-	371,753
5.2. Loans and advances	020	-	-	-
Financial assets at fair value through profit or loss		-	371,949	(371,949)
6. Financial assets at amortised cost (AOP 022+023)	**021**	**1,205,253**	**1,079,198**	**126,055**
6.1. Debt securities	022	2,332	-	2,332
Financial assets at amortised cost		-	2,342	(2,342)
6.2. Loans and advances	023	1,202,921	-	1,202,921
Loans and advances to customers		-	1,076,856	(1,076,856)
7. Derivatives - hedge accounting	**024**	**-**	**-**	**-**
8. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	**025**	**-**	**-**	**-**
9. Investments in subsidiaries, joint ventures and associates	**026**	**-**	**-**	**-**
10. Tangible assets	**027**	**43,849**	**-**	**43,849**
Investment properties		-	35,530	(35,530)
Property, plant and equipment		-	7,342	(7,342)
Foreclosed assets		-	20,472	(20,472)
11. Intangible assets	**028**	**3,519**	**3,519**	**-**
12. Tax assets	**029**	**3,273**	**-**	**3,273**
Deferred tax assets		-	3,273	(3,273)
13. Other assets	**030**	**20,120**	**-**	**20,120**
Other assets		-	18,924	(18,924)
14. Non-current assets and disposal groups held for sale	**031**	**-**	**-**	**-**
15. TOTAL ASSETS (AOP 001+005+010+014 +017+021+024 to 031)	**032**	**1,867,162**	**1,861,179**	**5,983**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2021 (continued)

in thousands of HRK

Item		CNB Decision	Annual Report	Difference
Liabilities				
16. Financial liabilities held for trading (AOP 034 to 038)	**033**	-	-	-
16.1. Derivatives	034	-	-	-
16.2. Short-term items	035	-	-	-
16.3. Deposits	036	-	-	-
16.4. Debt securities issued	037	-	-	-
16.5. Other financial liabilities	038	-	-	-
17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)	**039**	-	-	-
17.1. Deposits	040	-	-	-
17.2. Debt securities issued	041	-	-	-
17.3. Other financial liabilities	042	-	-	-
18. Financial liabilities at amortised cost (AOP 044 to 046)	**043**	**1,684,698**	**1,682,070**	**2,628**
18.1. Deposits	044	1,681,957	-	1,681,957
18.2. Debt securities issued	045	-	-	-
18.3. Other financial liabilities	046	2,741	-	2,741
Liabilities to banks		-	6,271	(6,271)
Demand deposits		-	664,749	(664,749)
Term deposits		-	853,975	(853,975)
Borrowings		-	157,075	(157,075)
19. Derivatives - hedge accounting	**047**	-	-	-
20. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	**048**	-	-	-
21. Provisions	**049**	**51,107**	**51,341**	**(234)**
22. Tax payable	**050**	**271**	-	**271**
23. Share capital repayable on demand	**051**	-	-	-
24. Other liabilities	**052**	**12,937**	-	**12,937**
Other liabilities		-	9,619	(9,619)
25. Liabilities of disposal groups held for sale	**053**	-	-	-
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 to 053)	**054**	**1,749,013**	**1,743,030**	**5,983**
Equity				
27. Share capital	**055**	**474,600**	**474,600**	-
28. Share premium	**056**	-	-	-
29. Issued equity instruments except for equity	**057**	-	-	-
30. Other equity instruments	**058**	-	-	-
31. Accumulated other comprehensive income	**059**	**(1,291)**	**(1,291)**	-
32. Retained earnings	**060**	**(364,484)**	**(355,160)**	**(9,324)**
33. Revaluation reserves	**061**	-	-	-
34. Other reserves	**062**	-	-	-
35. Treasury shares	**063**	-	-	-
36. Profit or loss attributable to owners of the parent company	**064**	**9,324**	-	**9,324**
37. Dividends for the year	**065**	-	-	-
38. Minority (non-controlling) interests	**066**	-	-	-
39. TOTAL EQUITY (AOP 055 to 066)	**067**	**118,149**	**118,149**	-
40. TOTAL CAPITAL AND RESERVES (AOP 054+067)	**068**	**1,867,162**	**1,861,179**	**5,983**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2021 (continued)

ASSETS

Cash on hand, Cash receivable from central banks and Other demand deposits are items separately disclosed under the CNB standard, while in the Annual Report those items are disclosed within Cash, Receivables from the CNB and Placements with banks. The exception is the separate required reserve with the CNB, which is disclosed within Receivables from the Croatian National Bank in the Annual Report, while it is disclosed within "Loans and advances (at amortised cost)" in the CNB report.

In the Annual Report, Loans and advances to customers include amounts of principal and accrued interest, less any loan prepayments and collected interest income relating to future periods. In the CNB report, the principal and interest amounts net of the accrued interest income of the future period , are disclosed under Loans and advances (at amortised cost) and the amounts of the loan prepayments are disclosed under Other liabilities (not offset). This item also includes the separate required reserve with the CNB, which is disclosed within Receivables from the Croatian National Bank in the Annual Report. Other receivables are disclosed within Loans and advances in the CNB Report, while in the Annual Report they are disclosed within Other assets.

Also, the item Tangible assets consists of the inventory amount in the CNB report, while inventories in the Annual Report are disclosed within Other assets. Foreclosed assets are disclosed separately in the Annual Report, while they are disclosed within Other assets in the CNB report.

Finally, the balance sheet disclosed in the Annual Report and the CNB Report differ due to the reduction in the prepayment of Loans and advances in the Annual Report and offsetting tax assets and deferred tax liabilities

LIABILITIES AND EQUITY

Financial liabilities carried at amortised cost disclosed in the CNB report in the Annual Report are disclosed within Liabilities to Banks, Demand Deposits, Term Deposits and Borrowings. The difference in amounts refers to Deposits for Custody and Brokerage Services that are reported in the CNB Statement under Other Liabilities and Fees and Commissions payable that are disclosed within Other Liabilities in the Annual Report.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement reconciliation as at 31 December 2021

in thousands of HRK

Item		CNB Decision	Annual Report	Difference
1. Interest income	069	50,296	50,238	58
2. Interest expense	070	4,504	4,448	56
3. Expenses from share capital repayable on demand	071	-	-	-
4. Dividend income	072	-	-	-
Credit loss allowances		-	*(8,663)*	*8,663*
5. Fee and commission income	073	11,762	11,762	-
6. Fee and commission expense	074	3,197	3,197	-
Provisions and impairment			*(3,397)*	*3,397*
7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	075	(228)	-	(228)
8. Gains or losses on financial assets and liabilities held for trading, net	076	2,583	-	2,583
Gains less losses from financial instruments measured at fair value through other comprehensive income		-	*(228)*	*228*
Gains less losses from financial instruments measured at fair value through profit or loss		-	*(17)*	*17*
Gains less losses arising from dealing in foreign currencies		-	*2,600*	*(2,600)*
Gains less losses from modifications to financial assets measured at amortised cost that are not caused by derecognition		-	*(11)*	*11*
9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net	077	(159)	-	*(159)*
10. Gains or losses on financial assets and liabilities at fair value through profit or loss, net	078	-	-	-
11. Hedging gains/losses, net	079	-	-	-
12. Foreign exchange gains or losses, net	080	(91)	-	(91)
Gains less foreign exchange losses		-	*(91)*	*91*
13. Gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, net	081	-	-	-
14. Gains or losses on derecognition of non-financial assets, net	082	-	-	-
Lease income		-	*4,714*	*(4,714)*
15. Other operating income	083	10,941	11,294	(353)
16. Other operating expenses	084	274	-	274
17. TOTAL OPERATING INCOME; NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 083 - 084)	085	67,129	60,556	(6,573)
18. Administrative expenses	086	45,576	-	45,576
19. Contributions in cash to rehabilitation committees and deposit insurance schemes	087	15	-	15
Staff costs		-	*(27,527)*	*27,527*
20. Depreciation and amortisation	088	2,421	(2,421)	4,842
Other operating expenses		-	*23,404*	*23,404*
21. Gains or losses on changes, net	089	(11)	-	*(11)*
22. Provisions or reversal of provisions	090	3,202	-	3,202
23. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss	091	8,441	-	8,441
24. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	092	-	-	-
25. Impairment or reversal of impairment of non-financial assets	093	259	-	259
26. Negative goodwill recognised in profit or loss	094	-	-	-
27. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method	095	-	-	-
28. Gains or losses on non-current assets and disposal group classified as held for sale not qualifying for classification as discontinued operations	096	-	-	-
29. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (AOP 085 - 086 to 088 088+ 089 to 093+ 094 to 096)	**097**	**7,204**	**7,204**	**-**
30. Tax expense or income relating to gains or losses on continuing operations	098	(2,120)	(2,120)	-
31. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 097 - 098)	**099**	**9,324**	**9,324**	**-**
32. Profit or loss after tax from discontinued operations (AOP 101 - 102)	100	-	-	-
32.1. Profit or loss before tax from discontinued operations	101	9,324	9,324	-
32.2. Tax expense or income relating to discontinued operations	102	-	-	-
33. PROFIT OR LOSS FOR THE YEAR (AOP 099 + 100; 104 + 105)	**103**	**9,324**	**9,324**	**-**
34. Attributable to minority (non-controlling) interest	104	-	-	-
35. Attributable to owners of the parent company	105	-	-	-

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement reconciliation as at 31 December 2021 (continued)

The item Net income from financial operations in the Annual Report consists of gains from trading in securities and foreign exchange gains that are disclosed separately in the CNB statement within Gains or losses on derecognition of financial assets and financial liabilities not carried at fair value through profit or loss and Gains or losses on financial assets and liabilities held for trading. The difference results from the gains on swap transactions disclosed in the CNB form within Gains or losses on financial assets and liabilities held for trading", while in the Annual Report it is disclosed within Net Foreign Exchange Losses.

Other operating expenses in the Annual Report in the CNB are disclosed separately within Administrative Expenses, Depreciation and Amortisation and Other Operating Expenses.

Impairment losses and provisions in the Annual Report in the CNB report are presented separately within Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss and Impairment or reversal of impairment of non-financial assets.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Cash flow statement reconciliation for 2021

in thousands of HRK

Item		CNB Decision	Annual Report	Difference
Operating activities and adjustments				
1. Profit/loss before tax	001	7,204	7,204	-
2. Impairment losses and provisions	002	12,060	-	12,060
Net credit losses		-	*8,663*	*(8,663)*
Provisions and impairment		-	*3,397*	*(3,397)*
3. Depreciation and amortisation	003	2,408	2,408	-
4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	004	(2,355)	-	(2,355)
Foreign exchange gains		-	*2,600*	*(2,600)*
5. Gains/losses on sale of tangible assets	005	(3,048)	-	(3,048)
6. Other non-cash items	006	2,239	-	2,239
Other (decrease) in cash flow		-	*(91)*	*91*
Interest received		-	*(50,238)*	*50,238*
Interest expense		-	*4,448*	*(4,448)*
Other non-cash items		-	*(1,040)*	*1,040*
Movements in assets and liabilities from operating activities				
7. Deposits with CNB	007	2,188	2,188	-
8. Deposits with financial institutions and loans to financial institutions	008	-	-	-
9. Loans and advances to other customers	009	(92,864)	-	(92,864)
Decrease in loans and receivables		-	*31,102*	*(31,102)*
10. Securities and other financial instruments at fair value through other comprehensive income	010	35,124	-	35,124
11. Securities and other financial instruments held for trading	011	-	-	-
12. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	012	-	-	-
13. Securities and other financial instruments mandatorily carried at fair value through profit or loss	013	-	-	-
14. Securities and other financial instruments carried at amortised cost	014	(2,368)	-	(2,368)
15. Other assets from operating activities	015	79,964	-	79,964
Decrease/(increase) in other assets		-	*651*	*(651)*
(Decrease) in other current liabilities		-	*(661)*	*661*
Increase/decrease in operating liabilities				
16. Deposits from financial institutions	016	1,387	-	1,387
Increase in liabilities to banks		-	*1,387*	*(1,387)*
17. Transaction accounts of other customers	017	(363)	-	(363)
18. Savings deposits of other customers	018	10,000	-	10,000
19. Term deposits of other customers	019	(58,961)	-	(58,961)
(Decrease) in deposits		-	*(49,324)*	*49,324*
20. Derivative financial liabilities and other trading liabilities	020	-	-	-
21. Other liabilities	021	386	-	386
22. Collected interest from operating activities	022	48,365	-	48,365
Interest received		-	*47,403*	*(47,403)*
23. Dividend received from operating activities	023	-	-	-
24. Interest paid from operating activities	024	(741)	-	(741)
Interest paid		-	*(741)*	*741*
25. Income tax paid	025	-	-	-
A) Net cash flows from operating activities (AOP 001 to 025)	**026**	**40,625**	**4,156**	**36,469**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Cash flow statement reconciliation for 2021 (continued)

in thousands of HRK

Item		CNB Decision	Annual Report	Difference
Investing activities				
1. Proceeds from sale/payments for purchases/of tangible and intangible assets	027	4,441	-	4,441
Purchase of property, equipment and intangible assets		-	*(2,085)*	*2,085*
Proceeds from sale of foreclosed assets		-	*5,085*	*(5,085)*
2. Proceeds from sale/payments for purchases/investments in subsidiaries, jointventures and associates	028	-	-	-
3. Proceeds from collection/payments for purchases/of securities and other financial instruments from investing activities	029	-	-	-
4. Dividends received from investing activities	030	-	-	-
5. Other proceeds/payments from investing activities	031	-	-	-
Payments for purchases of financial assets at fair value through profit or loss		-	*(2,342)*	*2,342*
Sale of financial assets at fair value through other comprehensive income		-	*39,818*	*39,818*
Proceeds from sale of financial assets at fair value through profit or loss		-	*434*	*(434)*
B) Net cash flows from investing activities (AOP 027 to 031)	**032**	**4,441**	**40,910**	**(36,469)**
Financing activities				
1. Net increase/decrease in borrowings from financing activities	033	(22,754)	-	(22,754)
Repayment of borrowings		-	*(23,224)*	*23,224*
Lease payments		-	*(1,194)*	*1,194*
2. Net increase/decrease in issued debt securities	034	-	-	-
3. Net increase/decrease in instruments of additional capital	035	-	-	-
4. Share capital increase	036	-	-	-
5. Dividend paid	037	-	-	-
6. Other proceeds/payments from financing activities	038	(1,664)	-	(1,664)
C) Net cash flows from financing activities (AOP 033 to 038)	**039**	**(24,418)**	**(24,418)**	-
D) Net increase / decrease in cash and cash equivalents (AOP 026+032+039)	**040**	**20,648**	**20,648**	-
Cash and cash equivalents at beginning of year	**041**	**216,894**	**216,894**	-
Effects of foreign currency exchange rate fluctuations on cash and cash equivalents	**042**	**(234)**	**(234)**	-
Cash and cash equivalents at end of year (AOP 040+041+042)	**043**	**237,308**	**237,308**	-

Mismatches of items in the income statement disclosed in the Annual Report in relation to the structure and contents prescribed in CNB's decision relate to the following categories:

According to the CNB's instruction, impairment losses and provisions are disclosed in one amount within Impairment losses and provisions, while in the Annual Report they are disclosed within Impairment of loans and other assets, Provisions for contingent liabilities, Provisions for legal disputes and Other provisions.

Items Transaction accounts of other customers and Savings deposits of other customers are disclosed separately in the CNB report, while in the Annual Report they are disclosed together within the Increase/(Decrease in demand deposits.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Purchase of financial assets at fair value through OCI and Sale of financial assets at fair value through OCI are disclosed in the Annual Report within Investing activities, while they are disclosed within Securities and other financial instruments at fair value through the OCI within the operating activities in the CNB report.

Reconciliation of the statement of comprehensive income and statement of changes in equity

The Statement of comprehensive income and the Statement of changes in equity prepared under the CNB standard do not differ from the Annual Report.

In accordance with Article 164 of the Credit Institutions Act, the Bank is obliged to disclose the following data relating to the previous financial year:

1. Banking and financial services provided, the nature of its activities and the geographic location of services provision;
2. Total income;
3. Number of employees on a full-time equivalent basis;
4. Amount of income tax; and
5. Amount of state subsidies received.

Ad.1.

In accordance with the Credit Institutions Act, the Bank engages in the following banking and financial services in the country and abroad:

- Receiving cash deposits,
- Granting of loans and other placements on its own behalf and for its own account,
- Issuing means of payment in the form of electronic money,
- Issuing guarantees and other commitments,
- Factoring,
- Finance leasing,
- Lending, including customer loans, mortgage loans and financing commercial transactions (including forfeiting),
- Trading on its own behalf and for its own account or on its own behalf and for the account of the client: money market instruments and other transferable securities, foreign currencies, including currency exchange, financial futures and options, currency and interest rate instruments,
- Payment transactions in the country and abroad in accordance with special laws,
- Collection, analysis and provision of information on the creditworthiness of legal entities and natural persons who perform activities independently,
- Issuing and management of payment instruments,
- Rental of safe deposit boxes,
- Representation in insurance,
- Receipt and transfer of orders in relation to one or more financial instruments,
- Execution of orders on behalf of clients,
- Trading for own account,
- Underwriting services, i.e. the sale of financial instruments with a purchase obligation,
- Underwriting Services, i.e. the sale of financial instruments without a purchase obligation,
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash management and security instruments,

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

- Providing loans to investors to allow carrying out transactions with one or more financial instruments, if the transactions involve a company that grants loans,
- Foreign exchange services, if related to the provision of investment services,
- Services related to underwriting or selling financial instruments with a purchase obligation.

In accordance with the National Classification of Activities, the activities of Croatia banka are defined as: 64.19 Other monetary mediation.

In 2021, Croatia banka performed its services in the Republic of Croatia.

Ad.2.

In 2021, Croatia banka realised a total net income of HRK 67,556 thousand.

Ad.3.

As at 31 December 2021, Croatia banka had 150 employees based on the number of hours of work, but at the end of 2021 the actual number of employees was 164.

Ad. 4.

Income tax is based on taxable income for the year and comprises current and deferred tax. In 2021, the Bank realised a tax gain of HRK 6,847 thousand. No income tax was paid as the Bank used the tax relief from previous periods. The amount reported under income tax relates to net deferred tax assets on prepaid/paid benefits.

Ad.5.

In 2021, Croatia banka did not receive any state subsidies.

NAME AND REGISTERED OFFICE

Name	Croatia banka d.d.
Address	Roberta Frangeša Mihanovića 9 10110 Zagreb
Legal form	Joint stock company
Country of registration	Croatia
Entity registration number	080007370
Entity identification number	32247795989
Website	www.croatiabanka.hr
Telephone	0800 57 57
Fax	01 2391 244
E-mail:	info@croatiabanka.hr
IBAN:	HR0324850031000009027

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

BUSINESS NETWORK

City	Address	Telephone	Fax
Čakovec Branch	Ulica Ivana Mažuranića 2 40000 Čakovec	040 310 160 040 311 672	040 310 643
Osijek Branch	Ulica Josipa Jurja Strossmayera 4 31000 Osijek	031 203 001 031 203 005	031 203 002
Pula Branch	Istarska ulica 14 52100 Pula	052 451 202 052 451 304	052 451 505
Slavonski Brod Branch	Trg Ivane Brlić Mažuranić 15 35000 Slavonski Brod	035 442 112	035 442 110
Split Branch	Gundulićeva 26A 21000 Split	021 539 795	021 539 794
Vinkovci Branch	Duga ulica b.b. 32100 Vinkovci	032 331 377 032 331 453	032 331 213
Virovitica Branch	Trg kralja Zvonimira 10 33000 Virovitica	033 725 441	033 725 602
Vukovar Branch	Josipa Jurja Strossmayera 5 32000 Vukovar	032 450 520	032 450 490
Sale to corporate customers Zagreb	R.F. Mihanovića 9 10110 Zagreb Sky Office Tower	01 2391 174 01 2391 650	01 2391 288
Šubićeva Outlet, Zagreb	Šubićeva 67 10000 Zagreb	01 4623 024	01 4623 027
Sky Office Outlet, Zagreb	R.F. Mihanovića 9 10110 Zagreb	01 2391 294 01 2391 282	01 2391 240
Županja Outlet	Strossmayerova 5 32270 Županja	032 831 051	032 833 424