CROATIA BANKA

ANNUAL REPORT

2022

CONTENTS

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

The Annual Report includes the Management 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 stated, 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 by the Management at the Assembly. 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 flows and notes to the financial statements, and the Article 250a of the Companies Act stipulates 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.

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", Statement of profit or loss as P&L, entity identification number as "OIB", Republic of Croatia as „RH" 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 2022	EUR 1 = HRK 7.53450	USD 1 = HRK 7.064035
31 December 2021	EUR 1 = HRK 7.517174	USD 1 = HRK 6.643548

Operational summary and key financial indicators

Indicator/Year	2022	2021	2020	2019	*in mil. HRK* 2018
Key indicators					
Net profit/(loss)	16	9	5	(25)	(25)
Operating profit	17	19	12	12	-
Total assets	1,829	1,861	1,921	1,969	2,306
Loans and advances to customers	1,007	1,077	1,114	1,125	1,081
Total deposits received	1,520	1,525	1,572	1,638	2,037
Capital and reserves	125	118	111	107	130
Other indicators					
Ratio of operating expenses in operating income	76.3%	71.5%	81.4%	82.3%	99.9%
Return on equity	12.8%	8.1%	4.4%	(19.1%)	(17.7%)
Return on assets	0.9%	0.4%	0.3%	(1.2%)	(0.9%)
Regulatory capital	126	114	110	104	126
Total capital ratio	19.36	15.90%	15.01%	13.20%	14.98%

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 state-owned joint stock company (Croatian: 'dioničko društvo') wholly owned by the State.

Letter from the Management Board

Danijel Luković, President of the Management Board

Katarina Stanić, Member of the Management Board

Dear shareholders, clients and partners, dear colleagues,

We are pleased to present the best financial results of the Bank's operations over the past twenty-five years.

The Bank has followed positive business trends in the last few years and which resulted in a record net profit of HRK 15.5 million at the end of 2022.

Total net revenues from operations amounted to HRK 71.6 million. I would especially emphasize the increase in net commissions and fees by 30.2% or HRK 2.6 million in the revenue structure, which is a significantly higher relative growth rate than the market rate. The bank is continuously improving and introducing new products to increase its share in total revenues. In contrast, under lower interest rates and slightly lower credit activity in 2022, net interest income decreased by 2.2%. Other non-interest income refers to income from the purchase and sale of foreign currency, the sale of repossessed tangible assets and rental income.

The increase in energy prices and the costs of the introduction of the euro as the official Croatian currency from 1 January 2023 have influenced the increase in operating costs by 9.1%. The increase in the mentioned costs, as well as the reactivation of the insurance premium, affected a slightly lower operating profit and a higher indicator of the share of costs in operating income compared to the previous year.

Last year was marked by the final preparation for the introduction of the euro as the official currency in the Republic of Croatia on 1 January 2023. The Bank started the euro project in the last quarter of 2020 and successfully completed it and provided continuity of services to clients in a very short period of time. For example, it was possible to use debit cards to withdraw cash at ATMs one minute after midnight on 31 December 2022, and mobile and Internet banking was operational in the afternoon hours on 1 January 2023. All branches were open with all functionality during regular working hours on 2 January 2023 at 8 a.m.

We would like to use this opportunity to thank all Bank employees involved in this project for their contribution to the successful implementation of this demanding project.

Activities related to risk management were aimed at further reduction of the share of non-performing exposures, which will be one of the goals in the coming period. In addition, the Bank will continue the process of risk management improvement, including establishing a framework for identifying, managing and monitoring environmental and climate risks in accordance with regulatory expectations.

The record realized net profit significantly influenced the increase in the total capital rate, which as of 31 December 2022 was 19.36%. On 31 December 2022, the Bank met all regulatory requirements.

The Bank has continuously maintained a high level of liquidity during 2022 as its primary goal.

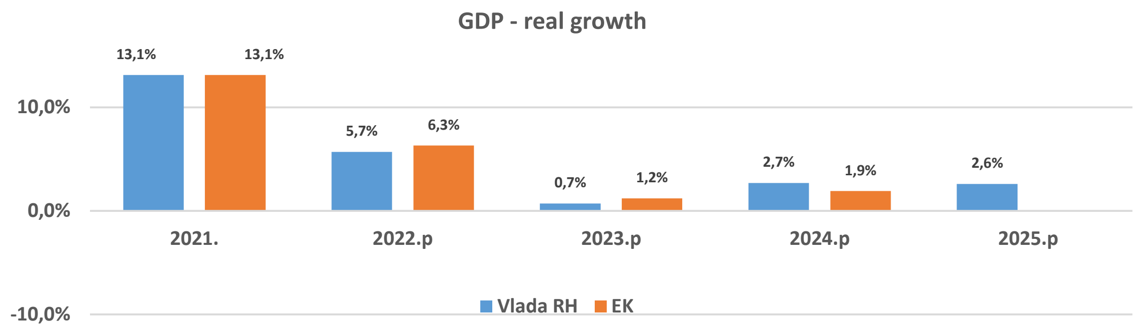
In the coming period, the Bank will primarily focus its business activities on doing business with small and medium-sized entrepreneurs and citizens, expanding the existing range of products and services with the aim of retaining existing and attracting new clients to continue a trend of a greater increase in non-interest income from the market as well as increase their share in total income.

We wish to thank all our clients and business partners for their trust and hope that we will continue to cooperate successfully. We also thank all our employees for their dedication in achieving business results in 2022.

Information on economic trends[1]

Gross domestic product

In the first quarter of 2022, the growth of domestic economic activity accelerated to 2.7% compared to the previous quarter, supported by the growth of total exports and investment activity. The available indicators point to a similar intensity of growth in economic activity in the second quarter as well, while the data on tourist reservations indicate that after a very good pre-season and at its peak, favourable achievements could be recorded, so at the level of the whole of 2022, real GDP could increase, as estimated by the Government of the Republic of Croatia, by 5.7%. Unfavourable global circumstances in addition to pronounced inflationary pressures are also reflected in the assessment of the slowdown of the Croatian economy in 2023 and the recovery in 2024 according to the assessment of the Government of the Republic of Croatia and the European Commission (EC).



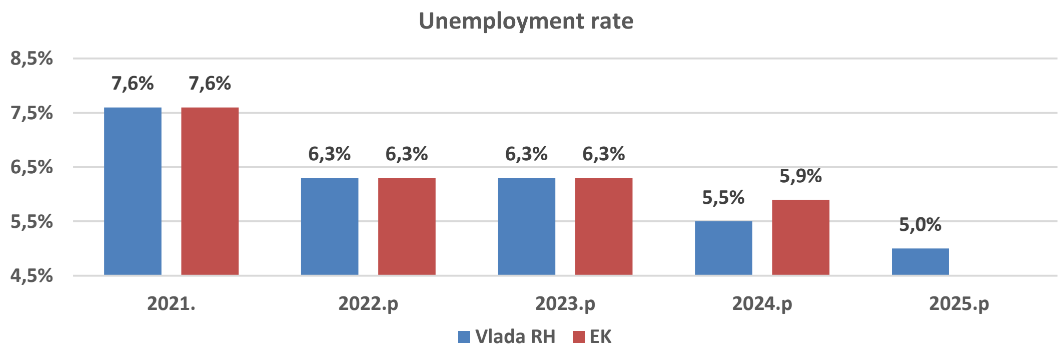
Labour market

In the third quarter of 2022, total employment increased by 0.5% compared to the previous three months, when employment growth was only slightly higher and amounted to 0.6%. The achieved dynamics is a continuation of the trend of a gradual slowdown in employment growth that started in the second part of the previous year. The strongest contribution to overall employment growth was made by employment in the IT sector and service activities related to tourism, while at the same time, the number of employees in the public sector dropped.

Observed on an annual basis, the number of employees in the third quarter of 2022 was 2.4% higher than in the same period of the previous year.

The unemployment rate in the third quarter was 6.8% of the workforce. The vacancy rate remained at the level of the previous three months and amounted to 1.27%.

Falling real wages and weak demand will reduce private consumption and exports, while the labour market will remain resilient, despite weaker employment growth and persistent labour shortages.

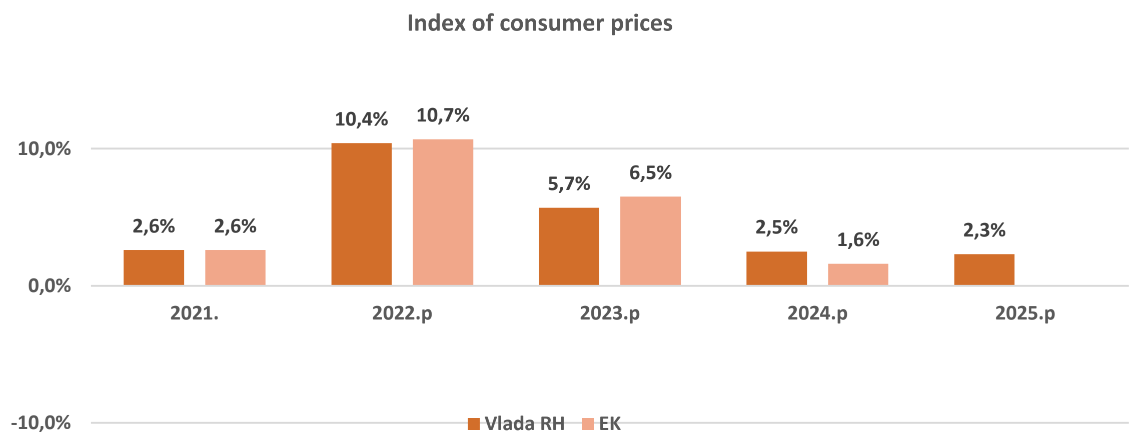


[1]Sources: Government of the Republic of Croatia, European Commission
Macroeconomic trends and forecast, CNB, July 2022.

Information on economic trends (continued)

Prices

The rise in the prices of energy and raw materials, which further intensified after the outbreak of the war in Ukraine, almost continuously exceeded market expectations. This increase, along with the increasingly pronounced spill over of the increase in input costs to a wider set of goods and services, is the reason for the increase in the projection of the average annual consumer inflation prices measured by the harmonized index of consumer prices (HICP) to 9.4% in 2022 (from 2.7% in 2021). The significant acceleration of inflation in 2022 is the result of, on the one hand, the abatement of the coronavirus pandemic increasing the demand for a large number of products and services, especially those that were partially or completely unavailable during the pandemic, and the price of raw materials on world markets also increased, and on the other side, disruptions generated on the supply side during the pandemic which led to shortages of certain semi-finished and finished products. Problems on the supply side came to the fore even more with the beginning of the Russian invasion of Ukraine, especially if you take into account the importance of these two countries for the supply of energy and certain other raw materials, with the sanctions imposed on Russia additionally contributing to unfavourable inflationary trends. With the passage of time, the prices of an increasing number of products and services began to rise, with the prices of energy and food rising strongly for some time, while recently the growth of other goods and services began to accelerate. As a result, annual consumer price inflation exceeded 10% in May for the first time since the stabilization program in the 1990s. In the rest of the year, it is expected to stabilize, while towards the end of the year, it could begin to slow down slightly.
During 2023, a further noticeable slowdown in inflation is expected, according to the estimate of the Government of the Republic of Croatia, to the level of 5.7%. However, the risks to the inflation projection are still pronounced, with the predominant risk being that it will be higher than forecasted.



Movements in exchange rates

The expected turn in monetary policies, supported by the first steps taken in this direction and announcements of future actions, prompted a strong tightening of global financial conditions. In such circumstances, the exchange rate of the kuna against the euro remained stable, and the liquidity of the monetary system remained at a very high level. The growth of geopolitical tension due to Russian aggression against Ukraine resulted in certain, relatively limited, pressures on the foreign exchange market in March. The nominal exchange rate of the kuna against the euro depreciated slightly during September and at the end of the month was 7.50 EUR/HRK, which was 0.2% higher level compared to the end of August.
Despite the weakening of the kuna against the euro, the nominal effective exchange rate of the kuna at the end of September remained unchanged compared to the end of August. The weakening of the kuna against the euro and the US dollar was reversed by the strengthening of the kuna against the forint and the Turkish lira, which mirrors the weakening of these currencies against the euro on the international foreign exchange market.

On 22 July 2022, the Government of the Republic of Croatia adopted a decision announcing the introduction of the euro as the official currency in the Republic of Croatia from 1 January 2023, with a fixed conversion rate of HRK 7.53450 for one EUR.

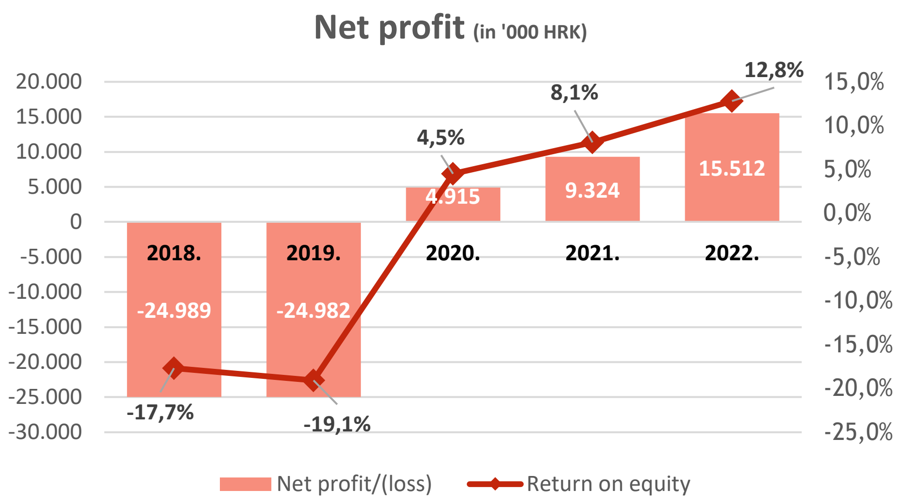
Description of operations

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.

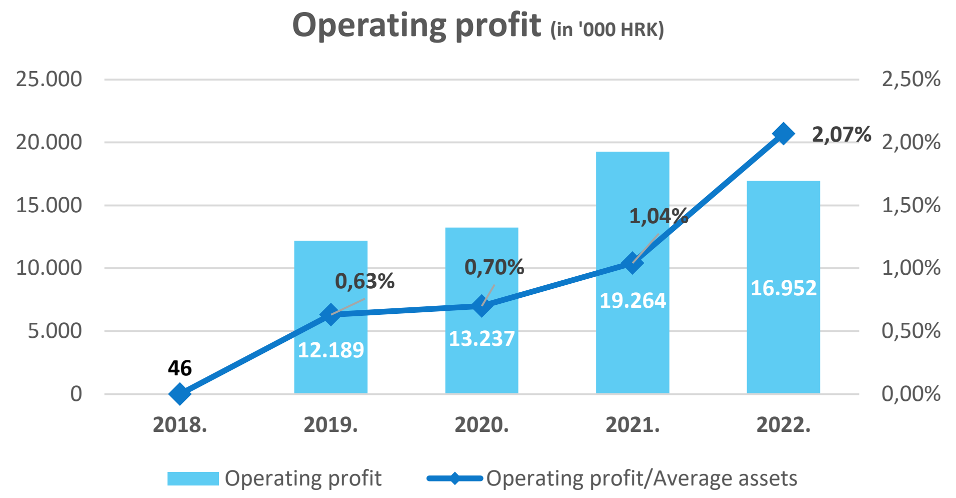
The Bank is wholly-owned (100%) by the State and in terms of assets (HRK 1.9 billion) it ranks 16th among a total of 20 banks. As at 31 December 2022, the Bank operates through 9 commercial centres and 3 branches.

As at 31 December 2022, the regulatory capital amounted to HRK 125,954 thousand, and the total regulatory capital adequacy ratio is 19.36%.

In 2022, the Bank realised profit after tax in the amount of HRK 15,512 thousand.

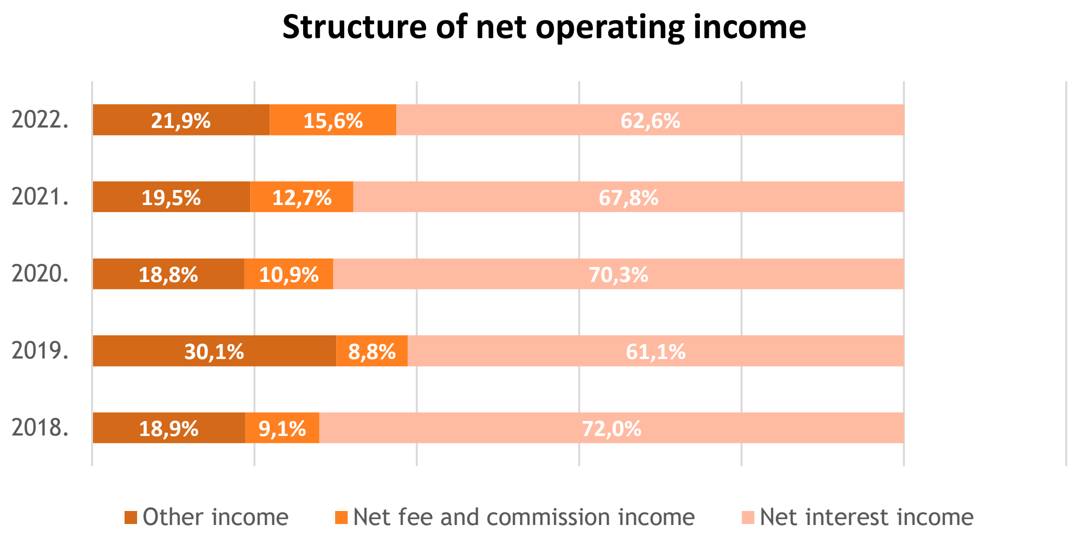


Operating profit amounts to HRK 16,952 thousand, and credit loss costs amount to HRK 28 thousand.

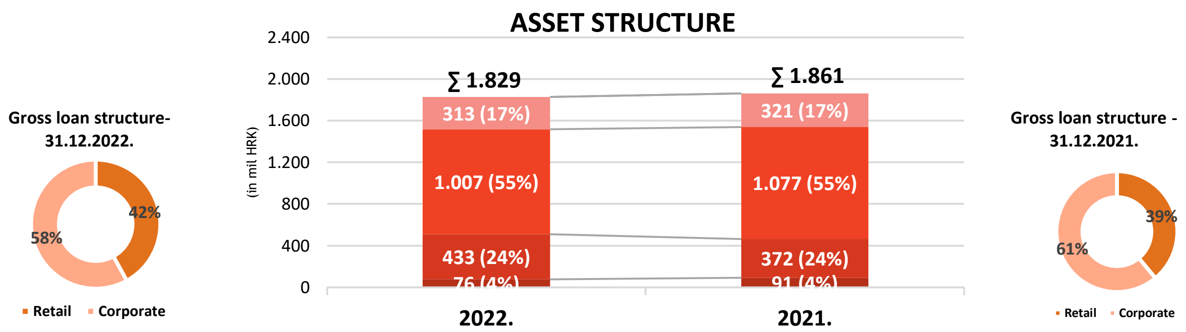


Total net income from operations increased by 6%, while total operating expenses increased by 13.2% compared to 2021. The increase in energy prices, the costs of the introduction of the euro as the official currency in RH from 1 January 2023, and the reactivation of the insurance premium in 2022 had an impact on the increase in total operating costs, and thus on a lower operating profit and a higher ratio of costs to operating income compared to the previous year.

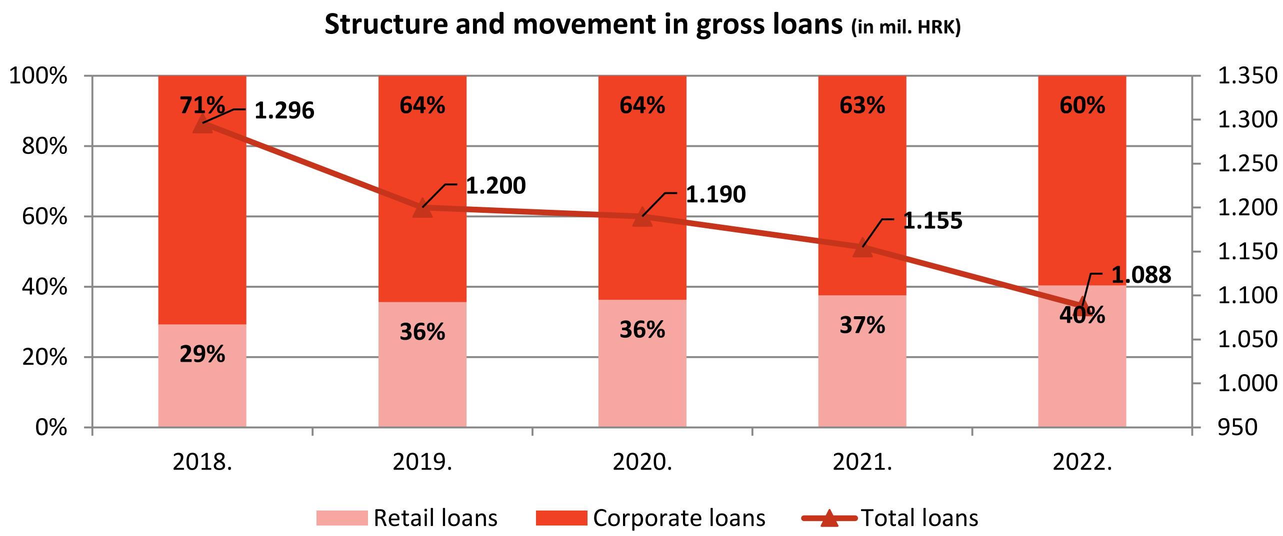
The most significant part of operating income is net interest income, which accounts for 62.6% (HRK 44,786 thousand) of total income.



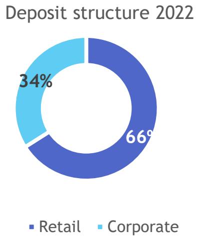
The Bank's assets at the end of 2022 amounted to HRK 1,829 million, which is HRK 32 million less than in 2021. In the structure of assets, the most significant share is made up of loans and receivables from customers (55%), followed by securities and other instruments (24%) and cash, receivables from the Croatian National Bank and other banks (17%).

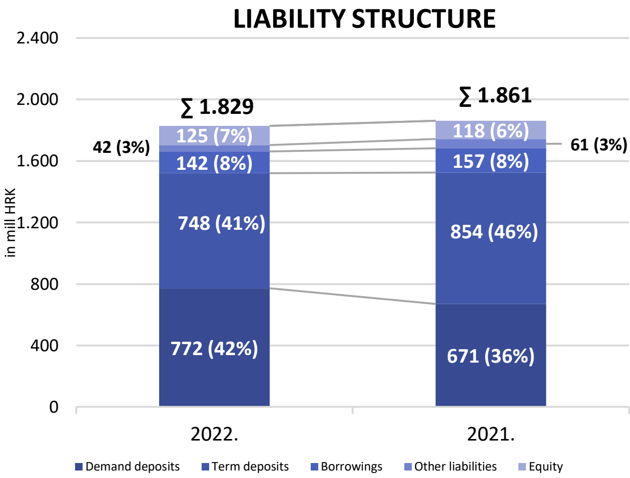


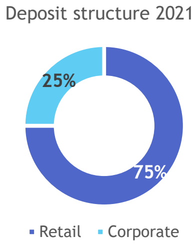
As of 31 December 2022, total gross loans to clients amounted to HRK 1,088 million and are 5.8% lower than in 2021, mostly due to a reduction in loans to legal entities. In the structure of loans to clients, 60% are loans to legal entities, and 40% are loans to individuals (including loans to craftsmen).



Demand deposits account for the most significant share of 42% in the structure of liabilities. Following are time deposits with 41%.

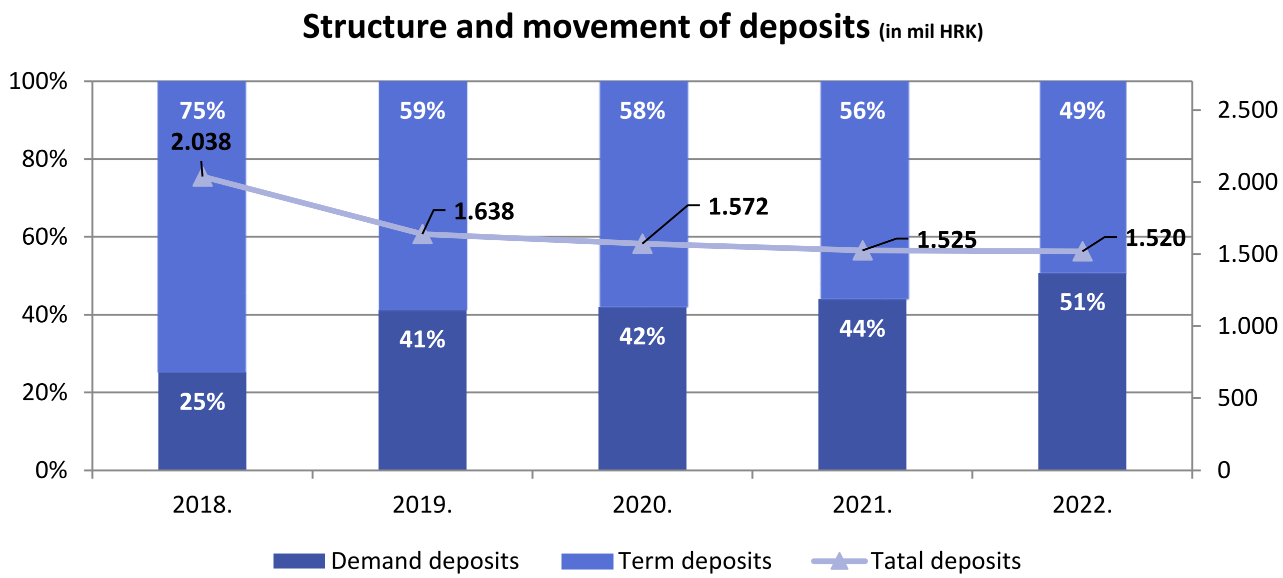






Total deposits at the end of 2022 amounted to HRK 1,520 million and recorded a decrease compared to the end of 2021 by 0.3% or HRK 5 million, whereby household deposits decreased by 12.2% and business deposits increased by 35 .6%.

In the structure of total deposits, demand deposits are predominant (51%) compared to term deposits (49%). Total term deposits decreased by 12.4%, and their share in the structure of total deposits decreased by 7 percentage points. Demand deposits in 2022 recorded an increase of 15.1%.



Retail banking operations

The year 2022 was marked by the recovery of credit activity (HRK 80 million was disbursed), an increase of HRK 19 million compared to the previous year. Taking into account the signs of recession and inflation, which are partly related to the current situation in Ukraine, as well as the recovery after the pandemic period, the Bank carried out its planned activities. Significant activities were undertaken with the aim of collecting receivables to reduce the share of bad placements and reduce the portfolio's risk rate.

The number of total current accounts at the end of the year had a negative balance, i.e. it was lower by 60 current accounts (832 current accounts were opened, 892 current accounts were closed as a result of regular outflow, closure of inactive accounts, and regular cleaning of the client base in most cases), but the number of active current accounts increased slightly compared to the previous year. The number of Internet and mobile banking users increased by almost 12.5% compared to the previous year, as did the number of active Internet and mobile banking users by 14.2%, which is a continuation of the positive trends from the previous year. This is the result of the continuation of strong sales activities and the Bank's orientation towards digital channels.

Revenues from the sale of third-party products are on track to achieve the set target and amounted to HRK 500,000, or 2,161 pieces. Compared to the previous year, this amounts to HRK 15,000 more realized premiums with twice as many pieces.

The decrease in credit activity in the investment banking sector (margin and S loans) had an impact on the decrease in interest income and custody fees. Although it should be noted that the structure of the credit portfolio is extremely stable.

Following everything previously stated and taking into account the challenging environment, the total income based on commissions and fees grew by 8% compared to the previous year. The most visible shift is in the part of income from fees for account maintenance (current accounts, giro accounts, demand savings accounts) and the introduction of product packages, which from the introduction in 2021 until the end of 2022 show growth compared to the initial state by more than 12 times. Higher fees were also realized in the card business, where an increase in volume was also recorded.

Throughout 2022, 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). During the year, education in the field of sales and negotiation skills, as well as leadership skills for business network directors was intensively conducted. External partners regularly conducted training in the field of product sales. FINA initiated the national ATM network project, and Croatia banka expressed interest in active participation.

Corporate banking operations

The main goal of corporate banking operations in 2022 was to ensure satisfactory business profitability without a significant increase in assets while rearranging the portfolio of corporate loans in such a way as to increase the share of loans to small and medium-sized entrepreneurs, which was realized.

At the end of 2022, the total net credit portfolio of legal entities amounted to HRK 581 million, which is a decrease of HRK 74 million compared to the end of 2021. This is primarily the result of a 26% decrease in the volume of corporate loans, while loans to small and medium-sized enterprises decreased by only 4%.

The reduction of the loan portfolio was largely influenced by the premature closure of loans, primarily in the segment of larger trading companies. On the other side, additional non-recurring income was generated from the early repayment of the loan.

During the last year, 395 new giro accounts of legal entities were opened, and with the aim of further increasing the number of clients, a new acquisition campaign was started at the end of the year.

Deposits of legal entities (excluding bank deposits) make up 34% of the Bank's total deposits. Compared to the end of 2021, deposits of legal entities recorded a growth of 37% and amounted to HRK 510 million. Of this, demand deposits amount to HRK 308 million, and time deposits amount to HRK 202 million.

Interest income generated in the corporate segment accounts for 56% of the total generated at the level of the Bank, while only 10% participates in interest expenses. This is the result of systematic monitoring of deposit maturities with correction of interest when renewing deposits.

Income from fees increased significantly compared to the previous year primarily due to higher income from fees for issued guarantees and letters of credit, higher volume of Internet banking and the adoption of a new tariff of fees for payment transactions and systematic control of contractual obligations of payment transactions by clients.

In the corporate segment, the collection of overdue receivables, i.e. the share of non-performing placements in the total portfolio, is systematically monitored. It can be concluded that the collection is regular and within the prescribed terms and that there are no new non-performing placements.

During 2022, activities related to the implementation of the euro introduction project were continuously undertaken in all segments of the Corporate Sector, including accompanying acts.

Treasury operations

During 2022, and in accordance with the still present uncertainties related to Covid-19 and the disturbances caused by the war in Ukraine and the related energy crisis, rising inflation and similar events on global markets, the Bank maintained a high level of HRK and foreign currency liquidity and retained the strategy of holding a larger share in primary liquidity reserves (around HRK 120 million a day on the account with CNB), in order to provide sufficient funds for a possible significant withdrawal of deposits and to avoid reputational risk.

In 2021, the Bank used a daily average of HRK 140 million of HRK repo loans at an average interest rate of 0.25%. In 2021, the CNB did not hold auctions of structural operations, so no changes were recorded on this position.

As far as foreign currency repo loans are concerned, during 2022, 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 4.2 million daily repo loans in euros, compared to HRK 31.6 million in 2021, but at an interest rate of -0.0675%, while the average interest rate in 2021 stood at -0.0657%.

In order to manage currency risk and ensure a balanced foreign exchange position, the Bank again did not use FX swaps during 2022. Instead, the Bank used the purchase and sale of foreign exchange only.

In 2022, the securities portfolio (bonds and treasury bills) increased by 16.2% or HRK 60 million. The increase in the portfolio of securities is the result of an increase in available liquidity reserves brought about by a change in regulations (gradual reduction of the required reserve ratio from 9 to 1% and the abolition of the obligation to maintain the prescribed rate between foreign currency liabilities and foreign currency receivables).
The bond portfolio in 2022 was reduced by 41.2%, i.e. by HRK 102 million. The decrease of HRK 91 million is the result of the sale of EUR 5.7 million in bonds of foreign countries, and in order to reduce the negative impact of the drop in bond prices caused by the market disturbances mentioned above; and the maturity of EUR 6 million bonds of the Republic of Croatia with a currency clause. An additional decrease in the portfolio of HRK 11 million results from a fall in prices.
In contrast to the bond portfolio, the portfolio of treasury bills in 2022 was increased by 82.3%, i.e. by HRK 163 million, which ensured a sufficient level of additional liquidity reserves (i.e. collateral for the Group’s management at the CNB and possible withdrawal of additional repo loans).

Internal controls 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 all regulatory requirements of corporate governance, its own Code of Business Conduct and Ethics, recommendations and guidelines of the EBA and the Croatian National Bank, and good corporate governance practices.

Through the Code of Business Conduct and Ethics, the Bank sets high professional and ethical business standards, by establishing basic principles and rules of good and acceptable behaviour that promote awareness of the importance of the professional performance of obligations and behaviour that promotes and reflects clients' trust in the Bank and establishes a business culture, i.e. manner of behaviour and interaction with clients, business partners and other stakeholders.

Implementing the established good practices, the Code of Business Conduct and Ethics was published on the Bank's website, which, in addition to the Bank's employees, allows all stakeholders, i.e. clients, business partners, supervisors and the entire interested public, to familiarize themselves with the basic ethical principles and values of the Bank.

Through the application of the Code, the Bank has set high ethical and professional standards, and continuously promotes, monitors and ensures their implementation. Application of the principle of equal opportunities and equal treatment of men and women in matters of employment and work, as well as the absence of discrimination against workers, are particularly considered to be highly ethical and professional standards, which the Bank considers extremely important.
The fundamental principles of business conduct are based on the following ethical values: legality of work and business, prohibition of discrimination and privilege, professionalism, expertise, honesty, conscientiousness and responsibility, mutual respect, trust, cooperation, decency and patience.
The Bank has developed internal procedures for reporting violations of the Code and, in accordance with them, a procedure for reviewing complaints and imposing sanctions in the event of a violation of the Code.

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 2022.
The Bank did not purchase any treasury shares during 2022.
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.

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 its operations.

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, 47/20 and 114/22). 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, 47/20 and 114/22), and also for the supplementary regulatory reports.

Signed on behalf of the Management Board:

15 March 2023

Danijel Luković
President of the Management Board

Katarina Stanić
Member of the Management Board

Independent auditor's report to the shareholders of Croatia bank d.d., Zagreb

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

OPINION

We have audited the annual financial statements of Croatia banka d.d. Zagreb, Ulica Roberta Frangeša – Mihanovića 9 (hereinafter „the Bank"), which include the Statement of Financial Position as at 31 December 2022, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended, as well as the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present, in all significant respects, a true and fair view of the Bank's financial position as at 31 December 2022, its financial performance and the cash flows for the year then ended, in accordance with International Financial Reporting Standards (hereinafter "IFRS") established by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under these standards are described in detail in our Independent Auditor's Report in the section on the Auditor's responsibilities for auditing annual financial statements.

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") including international standards issued by the Committee on International Ethics Standards for Accountants (IESBA), as well as in accordance with ethical requirements relevant to our audit of annual financial statements in Croatia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (continued)

KEY AUDIT MATTERS

Key audit matters are those matters that were, in our professional judgment, of greatest importance to our audit of the current period's annual financial statements. We dealt with these matters during our audit of the annual financial statements as a whole and when forming our opinion thereon, and we do not give a separate opinion on these matters. We have determined that the following are key audit matters that should be disclosed in our Independent Auditor's Report.

Key audit matter	How we addressed the key audit matter
Impairment of loans and advances to clients In Note 16 to the Bank's annual financial statements - Loans and advances to clients, there is a stated gross value in the amount of HRK 1,093,800 thousand, credit losses on loans in the amount of HRK 87,276 thousand, and provisions for credit losses recognized in profit or loss in the amount of HRK 7,351 thousand (as of 31 December 2021, the gross value of HRK 1,160,197 thousand, credit losses on loans in the amount of HRK 83,341 thousand, and impairment loss of HRK 8,372 thousand). The aforementioned area is determined as a key audit matter because credit risk is the most important financial risk the Bank is exposed to and directly affects the preservation of capital, and requires significant assessments by the Bank's Management when determining the amount of value adjustment. Determining appropriate impairment uses subjective assumptions and judgments in assessing the amount of provisions for impairment requested by the Bank's Management, which refers to the determination of the moment of recognition of the impairment and the amount of that impairment. The Management performed an assessment of the entire portfolio by estimating the expected credit loss (hereinafter referred to as "ECL") for individual loans in accordance with the requirements of the International Financial Reporting Standard 9 - Financial Instruments (hereinafter referred to as "IFRS" 9). When determining the moment and amount of necessary impairments for loans and customer advances, in the measurement model, the Management used subjective judgments in the following significant areas of assessment:	*Audit procedures* Audit procedures formed in response to the key audit matter included: • Consideration of the credit management business model, overview of placement groups, ways of managing loans and their evaluation; • Review of the classification of loans into regular loans, loans with a significant increase in credit risk and loans that require impairment, in accordance with IFRS 9 and in accordance with the Decision on the classification of placements and off-balance sheet liabilities of credit institutions; • Gaining an understanding of the functioning of the internal control system related to the assessment procedure of the necessary reduction in the value of loans and advances to clients, which was established by the Management, and review of their effectiveness; • Review and evaluation of a methodology for recognition of ECL provision, including estimates of the probability of default (PD), loss given default (LGD) and exposure at default (EAD); • Verification of the quality and correctness of the used historical financial information, assessment of the appropriateness of the associated collateral valuations, the appropriateness of the assumptions used, the verification of circumstances and events related to financial assets, and the used macroeconomic prospective information that causes the need for impairment due to ECL; • Assessment of the appropriateness of disclosures in relation to International Financial Reporting Standards. For impairments determined on an individual basis we:

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How we addressed the key audit matter</th></tr>
<tr><td>

The level of reliance on historical data in the process of determining risk parameters,
Allocating credit risk to an appropriate level for individual and total exposure,
Assessment of changes that indicate a significant deterioration due to which it is necessary to change the level of credit risk and the related ECL during the life of the instrument,
Assessment of the expected future operating cash flow
Assessment of the value of the collateral and the duration of its collection

The Bank continuously adjusts the model parameters, which also requires our increased attention during the audit.

Due to the financial significance of provisions for impairment, their impact on financial statements, the intensity of the use of subjective assumptions and judgments in estimating the amount of necessary provisions for impairment, and the complexity of the assessment models used, we concluded that the impairment as a consequence of the provisions for impairment and related customer loans and advances our key audit matter during the audit of the Bank's annual financial statements for the year ended 31 December 2022.

Related disclosures in the annual financial statements

See notes: 2.2. Financial assets and liabilities, 9. Provisions for credit losses, 16. Loans and advances to clients and 32.1. Credit risk, 32.6. Past due and not past due loans and receivables to the annual financial statements.

</td><td>

selected a sample of loans, namely those with the highest amount and the highest risk by individual characteristic placement groups;
verified the appropriateness of the criteria used to determine a significant deterioration of credit risk, the accuracy of financial information to identify loans where there is a need for impairment, recalculation or critical review of the assessment of the financial position and business performance, expected future cash flows, time required for collection, appropriateness of valuation of collateral and assessment of the financial effect from collateral collection.

For impairments determined on an aggregate basis we:

reviewed the appropriateness of the assumptions used to calculate the probability of default over the life of the instrument (PD) and the loss given default (LGD);
reviewed the appropriateness of measuring the required impairment for ECL through a critical review of the client's financial position and business performance, estimates of expected future cash flows, time required to collect the exposure, appropriateness of collateral valuation and assessment of the financial impact of using collateral to collect outstanding exposures;
assessed the appropriateness of exposure classification and ECL calculation of individual exposures on the Balance Sheet date, as well as their compliance with CNB requirements;
performed evidence testing of a selected sample of loans and related receivables in order to evaluate the correctness of the classification and valuation of loans.

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

PKF Fact Revizija

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (continued)

OTHER MATTERS

The annual financial statements for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on these financial statements on 23 March 2022.

OTHER INFORMATION

Management is responsible for other information. Other information contain Management Report included in the Annual Report, but do not include the annual financial statements and our Independent Auditor's Report thereon. Our opinion on the annual financial statements does not include other information.

In connection with our audit of the annual financial statements, it is our responsibility to read other information and consider whether the other information is materially inconsistent with the annual financial statements or our knowledge gained during the audit or otherwise appears to be materially misstated.

Regarding Management report, we also carried out the procedures defined by the Accounting Act. These procedures include the verification of whether the Management Report is composed in accordance with Article 21 of the Accounting Act. Based on the performed procedures, to the extent that we are able to assess this, we report that:

- the information in the attached Management report is harmonised, in all significant aspects, with the attached annual financial statements; and
- The enclosed Management Report for 2022 is prepared in accordance with Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Bank's operations and its environment acquired during the audit of the annual financial statements, we are obliged to report if we have discovered any materially significant misstatements in the attached Management Report. In that sense, we have nothing to report.

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

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

In preparing the annual financial statements, the Management is responsible for evaluation of the Bank's ability to continue operations assuming going concern principle; disclosure, if applicable, of issues related to going concern, and using accounting based on going concern principle, unless the Management intends to liquidate the Bank or discontinue its business or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process established by the Bank.

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (continued)

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF ANNUAL FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement due to fraud or error and to issue an Independent Auditor's Report that includes our opinion. Reasonable assurance is a higher level of assurance but is not a guarantee that an audit performed in accordance with ISAs will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they can reasonably be expected to affect, individually or in aggregate, the economic decisions of users made on the basis of those annual financial statements.

As an integral part of auditing in accordance with ISAs, we make professional judgments and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements due to fraud or error; design and perform audit procedures in response 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 due to fraud is greater than the risk arising from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation, or circumvention of internal controls.
- Gain an understanding of internal controls 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 controls.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the accounting basis of going concern used by the Management Board and, based on the audit evidence obtained, we conclude whether there is significant uncertainty about events or circumstances that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that there is significant uncertainty, we are required to draw attention to it in our Independent Auditor's Report to the related disclosures in the annual financial statements or, if such disclosures are not appropriate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our Independent Auditor's Report. However, future events or conditions may cause the Bank to discontinue its operations.
- Evaluate the overall presentation, structure and content of the annual financial statements, including disclosures, and whether the annual financial statements reflect the transactions and events on which they are based in a way that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and important audit findings, including significant deficiencies in internal controls identified during our audit.

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

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (continued)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT BASED ON REGUILATION (EU) 537/2014

- The Assembly of the Bank appointed us on the proposal of the Audit Committee on 29 September 2022, to audit the annual financial statements for 2022.
- We have been appointed as auditors of the Bank for the year 2022 for the first time. The audit of the annual financial statements represents our first year of audit.
- Our audit opinion on the annual financial statements is consistent with the additional report for the Bank's Audit Committee that we issued on 15 March 2023, in accordance with Art. 11. of Regulation (EU) No. 537/2014 of the European Parliament and the Council.
- During the period between the initial date of the Bank's audited annual financial statements for the year 2022 and the date of this report, we did not provide the Bank with non-audit services that are prohibited by Art. 5(1) of Regulation (EU) No. 537/2014 and in the business year prior to the aforementioned period, we did not provide services for the design and implementation of internal control procedures or risk management related to the preparation and/or control of financial information or the design and implementation of technological systems for financial information, and in performing the audit, we preserved our independence in relation to the Bank.
- In addition to the legal audit, we provided the Bank with the service of expressing a limited opinion on the determination of profit for the period from 1 January to 31 December 2022 and issued a report on this on 31 January 2023.

REPORT BASED ON THE REQUIREMENTS OF THE ACCOUNTING ACT

- Pursuant to the Decision on the structure and content of the annual financial statements of credit institutions (Official Gazette 42/18, 122/20, 119/21 and 108/22; hereinafter referred to as the "Decision"), the Management created the forms that are presented on pages 104 to 118. under the headings Statement of Financial Position (Balance Sheet) as of 31 December 2022, Profit and Loss Account, Cash Flow Statement and Changes in the Bank's Equity for the year then ended, together with information on reconciliation with the Bank's financial statements

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (CONTINUED)

REPORT BASED ON THE REQUIREMENTS OF THE ACCOUNTING ACT (CONTINUED)

The Management Board is responsible for the preparation of these forms and information on reconciliations with the Bank's annual financial statements, and they do not constitute an integral part of these annual financial statements, but contain the information prescribed by the Decision. The financial information in the forms is based on the audited annual financial statements of the Bank, which were prepared in accordance with the legal requirements for bank accounting in the Republic of Croatia, are presented on pages 104 to 118 and are adapted to the requirements of the Decision.

- The partner engaged in the audit of the Bank's annual financial statements for the year ended 31 December 2022 resulting in this Independent auditor's report is Jeni Krstičević, certified auditor

Zagreb, 15 March 2023

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

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

Irena Kovačić, dipl. oec.
Certified Auditor

	Note	2022	*in HRK '000* 2021
Interest income calculated using the effective interest method	*3*	48,324	50,238
Interest expense	*4*	(3,538)	(4,448)
Net margin on interest and similar income		**44,786**	**45,790**
Credit loss allowances	*9*	(7,520)	(8,663)
Net margin on interest and similar income after credit loss allowances		**37,266**	**37,127**
Fee and commission income	*5*	14,469	11,762
Fee and commission expense	*6*	(3,317)	(3,197)
Provisions and impairment	*10*	7,492	(3,397)
Gains less losses from financial instruments measured at fair value through other comprehensive income		(420)	(228)
Gains less losses from financial instruments measured at fair value through profit or loss		2	(17)
Gains less losses arising from dealing in foreign currencies		4,134	2,600
Gains less losses from modifications to financial assets measured at amortised cost that are not caused by derecognition		2	(11)
Gains less foreign exchange losses		(314)	(91)
Lease income	*7.1*	4,632	4,714
Other operating income	*7.2*	22,210	11,294
Staff costs	*8*	(27,979)	(27,527)
Depreciation and amortisation	*8*	(2,857)	(2,421)
Other operating expenses	*8*	(38,396)	(23,404)
Profit before tax		**16,924**	**7,204**
Income tax	*11*	(1,412)	2,120
Profit for the year		**15,512**	**9,324**
Other comprehensive income			
Items that may be reclassified to profit or loss		**(10,848)**	**(2,359)**
Gains less losses during the year from the measurement of financial assets at fair value through other comprehensive income		(10,921)	(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		73	(74)
Items that will not be reclassified to profit or loss		**1,966**	**457**
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*	1,966	411
TOTAL COMPREHENSIVE INCOME		**6,630**	**7,422**

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

	Note	2022	*in HRK '000* 2021
ASSETS			
Cash	*12*	280,645	219,199
Receivables from the Croatian National Bank	*13*	13,548	83,664
Placements with banks	*14*	18,712	18,109
Financial assets at fair value through OCI	*15*	432,709	371,949
Financial assets at amortised cost		34	2,342
Loans and advances to customers	*16*	1,006,525	1,076,856
Investment property	*17*	35,810	35,530
Property and equipment	*18*	6,654	7,342
Intangible assets	*18*	4,994	3,519
Foreclosed assets	*19*	5,800	20,472
Deferred tax assets	*11*	3,826	3,273
Other assets	*20*	19,586	18,924
Total assets		**1,828,843**	**1,861,179**
EQUITY AND LIABILITIES			
Liabilities to banks	*21*	3,508	6,271
Demand deposits	*22*	768,560	664,749
Term deposits	*23*	748,120	853,975
Borrowings	*24*	141,942	157,075
Lease liabilities	*28*	2,114	2,609
Other liabilities	*25*	11,134	7,010
Provisions	*26*	28,685	51,341
Total liabilities		**1,704,063**	**1,743,030**
EQUITY			
Share capital	*27*	474,600	474,600
Accumulated loss	*27*	(339,648)	(355,160)
Reserves	*27*	(10,172)	(1,291)
Total equity		**124,780**	**118,149**
Total liabilities and equity		**1,828,843**	**1,861,179**

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

	Share capital	Accumulated loss	Reserves	Total
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)
Realized 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	-	***46***	***(1,948)***	***(1,902)***
Balance at 31 December 2021	**474,600**	**(355,160)**	**(1,291)**	**118,149**
Balance at 1 January 2022	**474,600**	**(355,160)**	**(1,291)**	**118,149**
Profit for the year	-	15,512		15,512
Other comprehensive income				
Gains less losses during the year from the measurement of financial assets at fair value through other comprehensive income	-		(10,921)	(10,921)
Gains less losses on the sale of financial assets at fair value through other comprehensive income transferred to profit or loss on disposal	-		73	73
Realized gains on the sale of financial assets at fair value through other comprehensive income	-	-	-	-
Income tax recognised directly in other comprehensive income	-		1,967	1,967
Total comprehensive income for 2022	**-**	**-**	**(8,881)**	**(8,881)**
Balance at 31 December 2022	**474,600**	**(339,648)**	**(10,172)**	**124,780**

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

			in HRK '000
	Note	**2022**	**2021**
NET CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**16,924**	**7,204**
Adjustment to net cash from operating activities			
Depreciation and amortisation	8	2,857	2,408
Foreign exchange gains		(4,134)	(2,600)
Net credit losses	9	7,520	8,663
Provisions and impairment	10	(7,492)	3,397
Interest income	3	(48,324)	(50,238)
Interest expense	4	3,538	4,448
Other non-cash items		(4,704)	(1,040)
Operating cash flows before changes in working capital:			
Decrease in loans and receivables		70,332	31,102
Decrease in receivables from the CNB and placements with banks		70,123	2,188
Decrease in other assets		(3,641)	651
(Decrease) in other current liabilities		4,315	(661)
Increase/(decrease) in liabilities to banks		(2,763)	1,387
(Decrease) in deposits		(2,044)	(49,324)
Other (decrease) in cash flow		-	(91)
Changes in working capital			
Income tax paid	11		-
Interest received		44,695	47,403
Interest paid	25	(611)	(741)
Net cash used in operating activities		**146,591**	**4,156**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		-	(2,085)
Proceeds from sale of financial assets at fair value through profit or loss		-	434
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		(72,315)	39,818
Proceeds from sale of foreclosed assets		5,626	4,283
Net cash flow from investing activities		**(66,689)**	**44,387**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings	25	(15,848)	(23,224)
Proceeds from new borrowings	25	**-**	-
Lease payments	25	(1,159)	(1,194)
Net cash flow from financing activities		**(17,007)**	**(24,418)**
Cash and cash equivalents at beginning of year (Note 30)		**237,308**	**216,894**
Net change in cash and cash equivalents		**62,895**	**20,648**
Effect of change in expected credit losses on cash and cash equivalents		**(846)**	**(234)**
Cash and cash equivalents at end of year (Note 30)		**299,357**	**237,308**

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 9 Commercial centres - Commercial centre Čakovec, Commercial centre Osijek, Commercial centre Pula, Commercial centre Slavonski Brod, Commercial centre Split, Commercial centre Vinkovci, Commercial centre Virovitica, Commercial centre Vukovar, Commercial centre 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 2022, the members of the Supervisory Board were:
1 January - 22 July 2022
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member
From 22 July to 31 December 2022, the members of the Supervisory Board were:
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member
Igor Borošak, Member.

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

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.

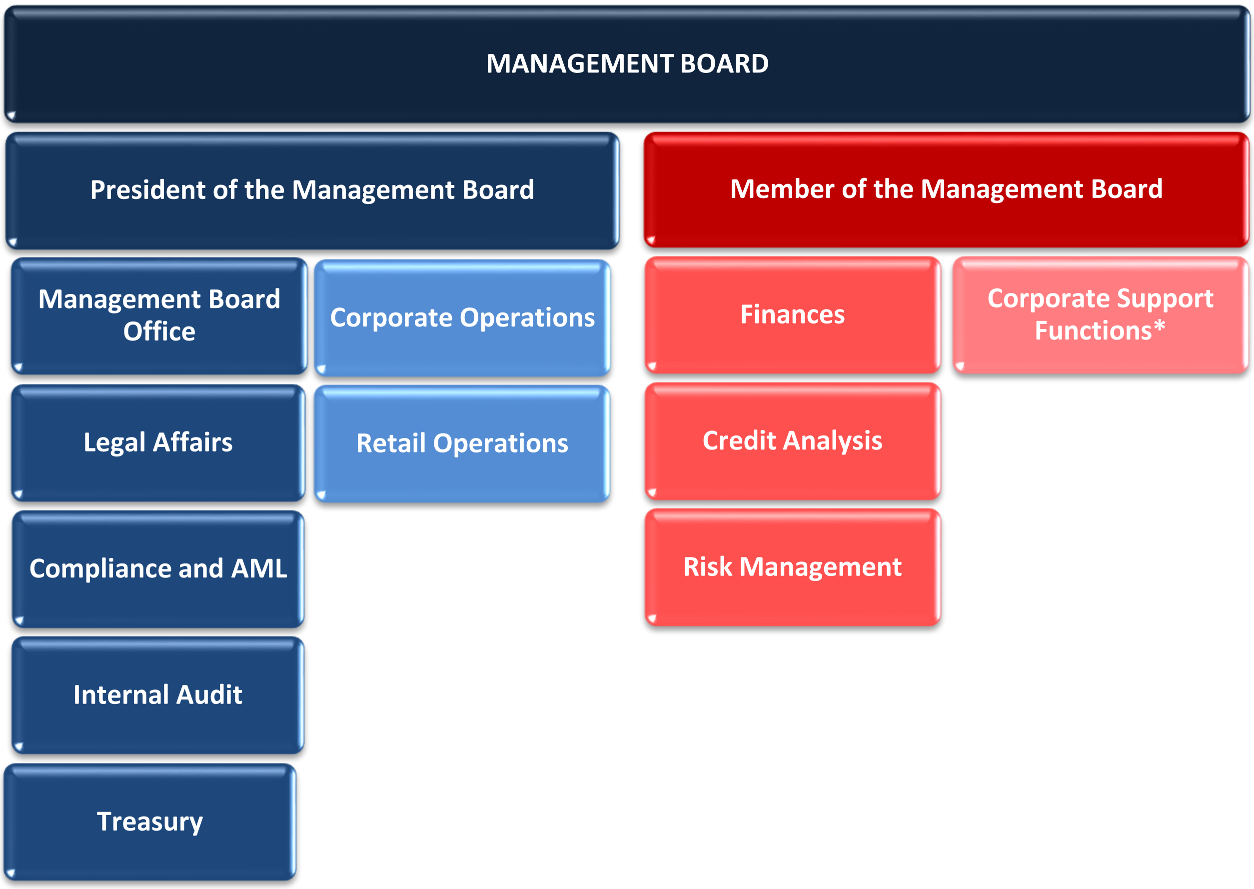
In 2022, the Management Board Members were as follows:
Danijel Luković – President of the Management Board, from 1 January to 31 December 2022.
Katarina Stanić – Member of the Management Board, from 14 April 2022 to 31 December 2022.
Tadija Vrdoljak – Member of the Management Board, from 1 January to 13 April 2022.

In 2021, the Management Board Members were as follows:

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

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Organisational structure



*payment transactions, IT, loan administration, general affairs

1. GENERAL INFORMATION ABOUT THE BANK (continued)

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.

As at 31 December 2022, the Bank's regulatory capital amounted to HRK 125,954 thousand. As at 31 December 2022, the total capital ratio was 19.36%.

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 to the annual financial statements.

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 on 31 December 2022 was HRK 7.53450 for EUR 1 (2021: HRK 7.517174) and HRK 7.064035 for USD 1 (2021: HRK 6.643548).

Change of business model

On 27 December 2022, the Bank's Management Board passed the Decision on the change of the business model of debt securities from a model measured at fair value to a model measured at amortized cost in accordance with IFRS 9 - Financial Instruments.
As a result of the change in the business model, the reclassification of debt securities will be carried out on 1 January 2023 with their balance as of 31 December 2022.

Introduction of euro as official currency in the Republic of Croatia

On 12 July 2022, the Council for Economic and Financial Affairs of the European Union adopted three legal acts that enabled the Republic of Croatia to introduce the euro as its currency from 1 January 2023: Decision of the Council on the introduction of the euro in the Republic of Croatia on 1 January 2023, the Council Regulation regarding the introduction of the euro in the Republic of Croatia and the Council Regulation regarding the conversion rate for the Republic of Croatia (the conversion rate between the euro and the Croatian kuna is HRK 7.53450 for 1 EUR).
At the session held on 21 July 2022, the Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency of the Republic of Croatia (Official Gazette 85/2022).
Further to the aforementioned decisions, the Republic of Croatia introduced the euro as its official currency on 1 January 2023, thus becoming the twentieth member of the Eurozone.

1. GENERAL INFORMATION ABOUT THE BANK (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 and the expert opinion is applied that PD increases in the event of a fall in GDP / increase in unemployment, that is, PD decreases in the case of an expected increase in GDP / decrease in unemployment.

Following the applied expert scoring, combining scenarios and expectations, the Bank calculated the basic PD based on historical data models and increased it by 22.5%. At the beginning of 2022, an Action Plan was adopted for the implementation of the recommendations defined by the backtesting process, and the implementation of additional improvements to macroeconomic projections based on the model of expected credit losses is planned for 2023.

Other

The Bank did not perform any impairment of the securities portfolio. 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

New and amended International Financial Reporting Standards

Standards and interpretations in effect in the current period

- Annual Improvements to IFRS from the 2018-2020 cycle - effective for annual periods beginning on or after 1 January 2022).
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Contract Performance Cost): The amendments define which costs should be included in an entity's assessment of contract impairment (effective for annual periods beginning on or after 1 January 2022) .
- IAS 16 Property, plant and equipment (Amendment - Income before intended use): The amendment prohibits the reduction of acquisition costs for realized receipts of sold effects produced when bringing plant and equipment into working condition for the intended use. Instead of the current practice, the entity will recognize both income and expenses generated by the trial operation through the profit or loss account (effective for annual periods beginning on or after 1 January 2022).
- IFRS 3 "Business Combinations" - Link to Conceptual Reporting Framework (effective for annual periods beginning on or after 1 January 2022).

The Bank determined the impact of new standards and interpretations on its annual financial statements. The new standards and interpretations did not affect the annual financial statements of the Bank.

Standards and interpretations issued by the International Accounting Standards Board, which are not yet effective

Amendments to IAS 1: Presentation of Financial Statements and disclosure of accounting policies;
- In March 2017, the IASB published the Discussion Paper „Disclosure Initiative – Principles of disclosure
- In August 2019, the IASB publishes the Exposure Draft "Disclosure of Accounting Policies" in which it proposes changes to IAS 1
- On 12 February 2021, the IASB publishes amendments to IAS 1 that apply on or after 1 January 2023. Earlier application is allowed.

These amendments bring changes to points 117-122 of IAS 1. Presentation of Financial Statements in which the emphasis is on:

- to the request for disclosure of significant accounting policies
- an explanation of how the entity identifies significant accounting policies to be disclosed in order to assist companies in improving the disclosure of accounting policies for primary users of financial statements.

Accounting policy information relating to immaterial transactions, other events or conditions are immaterial and should not be disclosed. Disclosure of insignificant information about the accounting policy must not obscure significant information about the accounting policy.

The Bank has concluded that the accounting policy information is immaterial and will not affect the related disclosure requirements set forth in other IFRSs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued by the International Accounting Standards Board, which are not yet effective (continued)

The entity, along with significant information on the accounting policies or other notes, publishes the judgments and assessments made by the management in the process of applying the entity's accounting policies, which have the greatest impact on the amounts recognized in the financial statements.

The entity discloses information on assumptions for the future and other main sources of uncertainty of the assessment at the end of the reporting period that carries a significant risk that they will result in a significant adjustment of the book amounts of assets and liabilities in the next business year.

Entity-specific information is more meaningful than standardized information or information that repeats or summarizes IFRS requirements. Entity-specific information may be Accounting Policy Information that emphasizes how the entity has applied the requirements of IFRS to its circumstances.

Significant accounting policy information may sometimes include information that is standardized or that repeats or summarizes IFRS requirements.

Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: The amendments introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after 1 January 2023, and changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Earlier application is allowed.

Amendments to IAS 12 Income taxes: Deferred tax related to assets and liabilities arising from a single transaction;

The amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is the exemption from initial recognition specified in IAS 12.15(b) and IAS 12.24. Accordingly, the exemption from initial recognition does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise upon initial recognition.
Entities shall apply the amendments to IAS 12 at the latest from the beginning of their first financial year starting on or after 1 January 2023..

IFRS 17: Insurance contracts

IFRS 17 completely replaces the current IFRS 4, and the full application of the new standard becomes effective for annual periods beginning on or after 1 January 2023.
IFRS 17 effectively solves the comparability problems caused by IFRS 4: it requires all insurance contracts to be accounted for in a consistent and transparent manner, which greatly benefits both investors and insurance companies.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued by the International Accounting Standards Board, which are not yet effective (continued)

The most important changes introduced by IFRS 17 relate to the methodology for valuing insurance and reinsurance contracts and to disclosures in the notes related to contracts on insurance, reinsurance and investments with profit participation based on a discretionary decision.

IFRS 17 applies to all insurance contracts issued by the entity (including reinsurance contracts), reinsurance contracts held by the entity, and investment contracts with profit sharing based on a discretionary decision.

In accordance with the provisions of IFRS 17, an insurance contract is a contract on the basis of which one party (the issuer) assumes a significant insurance risk from another party (the policyholder) and agrees to pay the policyholder compensation in the event that the policyholder suffers damage due to a certain uncertain future event (insured event). This definition is similar to that in IFRS 4 and has not changed substantially.

The subject of the new standard for insurance contracts published on 18 May 2017, which comes into force for annual periods beginning on or after 1 January 2023, is the presentation of assets and liabilities arising from insurance contracts in financial statements prepared in accordance with IFRS.

Companies apply IFRS 17 no later than the beginning of their first financial year beginning on or after 1 January 2023.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies listed below have been applied consistently for all periods included in these statements unless otherwise stated. Where the accounting policies coincide with the accounting principles of the International Financial Reporting Standards (hereinafter: "IFRS" or "Standards"), certain Standards may be referred to in the description of the Bank's accounting policies. Unless otherwise stated, these are the Standards that were in force on 31 December 2022.

2.1. Cash and cash equivalents

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

2.2. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Financial assets and liabilities (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Financial assets and liabilities (continued)

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.

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)

2.2. 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.

2.3. 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 appraiser. 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.

2.4. 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:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Property and equipment (continued)

	2022	2021
Buildings	2.50% - 5%	2.50% - 5%
Computers	16.67% - 25%	16.67% - 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:

	2022	2021
Intangible assets (other)	10% - 20%	10% - 20%
Intangible assets - *software*	16.67% - 25%	16.67% - 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.

2.7. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Assets held for sale (continued)

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. Impairment for 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.

2.9. 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.

2.10. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Employee benefits (continued)

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. 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.

2.13. 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. 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.

Right-of-use assets

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Leases

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:

	2022
Buildings (office space)	6.8%-50%
Cars	20%
Equipment	50%

2.15. 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.

2.16. Share capital and reserves

Share capital is denominated in HRK at nominal value.

2.17. Accumulated losses

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

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 2022 the Bank generated revenue in the amount of HRK 14 thousand.

2.19. Accounting estimates and judgements 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 judgements 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 2022	**31 December 2021**
Credit losses on loans and advances to customers	73,131	70,784
Credit losses for off-balance sheet credit exposure	59	257
Total credit losses	**73,191**	**71,041**
Gross value of exposures for which credit losses are calculated on an individual basis	**131,214**	**158,974**

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 21,477 thousand in principal and interest on liabilities for legal disputes (2021: HRK 45,845 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 valuator.
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 RATE METHOD

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

	in HRK '000 2022	2021
Retail	25,404	26,128
Corporate	21,746	22,929
Government units	773	950
Banks and other financial institutions	381	212
Other organisations	20	19
Total	**48,324**	**50,238**

Interest income comprises income from placements in default in the amount of HRK 2,628 thousand (2021: HRK 2,493 thousand) of which HRK 1,617 thousand (2021: HRK 1,925 thousand) relates to corporate transactions, and the remaining HRK 1,011 thousand (2021: HRK 568 thousand) relates to retail transactions.

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

	in HRK '000 2022	2021
Financial assets at amortised cost	48.023	49.276
Financial assets at fair value through other comprehensive income	301	962
Total	**48.324**	**50.238**

4. Interest expense

4.1 Interest expense by type of customer

	in HRK '000 2022	2021
Retail	2,020	2,858
Non-residents	438	698
Croatian National Bank	667	416
Corporate	220	261
Banks and other financial institutions	100	109
Government units	48	53
Leases	26	31
Other organisations	19	22
Total	**3,538**	**4,448**

4.2. Interest expense by portfolio

	in HRK '000 2022	2021
Financial liabilities measured at amortised cost	3,538	4,448
Total	**3,538**	**4,448**

5. FEE AND COMMISSION INCOME

5.1. Income from fees and commissions by type of customer

	in HRK '000 2022	2021
Corporate	6,685	5,275
Retail	5,371	4,644
Financial institutions	1,271	1,003
Non-residents	673	442
Non-profit institutions	314	267
Government units	155	131
Total	**14,469**	**11,762**

5.2. Income from fees and commissions by

	in HRK '000 2022	2021
Payment transaction fees	4.674	3.690
Fees from guarantees and letters of credit	2.280	1.734
Account maintenance fees	2.135	2.169
Online banking fees	2.057	1.449
Income from fees - sales of third-party products	554	562
Card transaction fees	1.073	764
Brokerage and custodial fees	115	159
Product bundles	316	102
Other commissions	1.265	1.133
Total	**14.469**	**11.762**

6. FEE AND COMMISSION EXPENSE

6.1. Fee and commission expense by type of customer

	in HRK '000 2022	2021
Domestic clients	(1,907)	(1,690)
Service fees and commissions to FINA	(1,217)	(1,276)
Foreign banks	(134)	(137)
Republic of Croatia	(59)	(94)
Total	**(3,317)**	**(3,197)**

6. FEE AND COMMISSION EXPENSE (CONTINUED)

6.2. Fee and commission expense by type

	in HRK '000 **2022**	**2021**
Credit card commission	(1,195)	(1,012)
FINA's non-cash and cash payment services (customers)	(1,217)	(1,277)
Financial institutions service costs	(698)	(662)
Authorised exchange office services	(70)	(69)
Other commissions	(137)	(177)
Total	**(3,317)**	**(3,197)**

7. OTHER INCOME

7.1. Rental income

	in HRK '000 **2022**	**2021**
Rental income	4.632	4.714

In 2022, the Bank generated rental income based on investment property in the amount of HRK 4,632 thousand (2021: HRK 4,714 thousand).

7.2. Other operating income

	in HRK '000 **2022**	**2021**
Gain on sale of property, plant and equipment and foreclosed assets	20,211	8,113
Gain on fair value adjustment of investment property	280	-
Other income	1,719	3,181
Total	**22,210**	**11,294**

The Bank reduced the income from the sale of property, equipment and foreclosed assets for the value of long-term tangible assets not written-off in 2021 and reported net profit as a result of derecognition of property in accordance with IFRS 5.24(a) and IAS 16.71.

8. OTHER OPERATING EXPENSES

in HRK '000	2022	2021
Net salaries	(15,505)	(15,363)
Contributions, taxes and surtaxes	(5,328)	(4,291)
Pension contributions	(4,353)	(5,183)
Other staff costs	(2,600)	(2,571)
Provisions for employee benefits (Note 26)	(193)	(119)
Total staff costs	**(27,979)**	**(27,527)**
Depreciation and amortisation (Note 18)	(2,857)	(2,421)
Total depreciation and amortisation	**(2,857)**	**(2,421)**
Material and services	(16,465)	(13,870)
Deposits insurance premium expense	(1,985)	-
Rental expenses	(2,145)	(2,293)
Judicial and administrative fees	(279)	(86)
Marketing	(546)	(390)
Net book amount of non-current tangible assets	(14,584)	(5,065)
Other	(2,392)	(1,700)
Total other operating expenses	**(38,396)**	**(23,404)**
Total	**(69,232)**	**(53,352)**

As at 31 December 2022, the Bank had 162 employees (2021: 164 employees).

Staff costs include HRK 4,353 thousand (2021: HRK 5,183 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 2022, consultants' services amounted to HRK 625 thousand (2021: HRK 556 thousand), and relate to the audit of annual reports, IT systems, semi-annual reports and other consultancy services.

Due to the increase in the deposits of the banking system in 2022 there was the obligation to pay the premium for the insurance of savings deposits for two quarters again.

9. CREDIT LOSS ALLOWANCES

in HRK '000	2022	2021
Credit losses on interest receivables (Note 16.2)	(18)	313
Credit losses on securities	(37)	38
Credit losses on other assets	16	(425)
Credit losses on loans and advances to customers (Note 16.2)	(7,182)	(8,565)
Credit losses on deposits with banks	(299)	(24)
Total credit loss allowances	**(7,520)**	**(8,663)**

10. PROVISIONS AND IMPAIRMENT

	2022	*in HRK '000* 2021
Impairment of foreclosed assets (Note 19)	(88)	(159)
Income from collection of loans written-off in previous years	85	63
Provisions for contingencies (Note 26)	(1,512)	(1,492)
Provision for legal disputes against the Bank	9,093	(1,164)
Other provisions	(86)	(645)
Total provisions and impairment	**7,492**	**(3,397)**

11. INCOME TAX

	2022	*in HRK '000* 2021
Current income tax	-	-
Deferred income tax	(1,412)	2,120
Total income tax	**(1,412)**	**2,120**

	2022	*in HRK '000* 2021
Profit before tax	**16.924**	**7.204**
Income tax (18%)	3.046	1.297
Effect of items increasing tax base	266	438
Effect of items decreasing tax base	(2.418)	(502)
Utilisation of tax losses carried forward for which no deferred tax assets were recognised	(2.306)	887
Income tax	**(1.412)**	**2.120**
Effective income tax rate	**8,34%**	**29,43%**

Movements in tax losses carried forward

	2022	*in HRK '000* 2021
Tax losses carried forward from the previous period	**(30,878)**	**(37,725)**
Utilisation of tax losses	4,970	6,847
Expiry of tax losses available for carry forward	7,913	-
Tax loss available for carry forward in future periods	**(17,995)**	**(30,878)**
Deferred tax assets at 18% (2020: 18%)	(3,239)	(5,558)
Recognised deferred tax assets	-	(2,120)
Unrecognised deferred tax assets	(2,352)	(3,345)

11. INCOME TAX (CONTINUED)

Tax losses expire as follows

Tax loss expiry	*in HRK '000* Tax loss
2023	17,995
Total	**17,995**

As at 31 December 2022, deferred tax assets arising from tax losses carried forward were recognised in the amount of HRK 887 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 HRK '000

	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 2021	**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**
Recognised in profit or loss	(80)	-	(12)	(1,321)	1,413
Recognised in other comprehensive income	-	1,966	-	-	1,966
At 31 December 2022	605	2,282	47	892	3,826

12. CASH

in HRK '000

	2022	2021
Giro account	203,082	139,053
Cash on hand		
- HRK	31,490	11,107
- foreign currency	4,755	6,101
Cash in foreign currency accounts with domestic banks	37,187	58,876
Cash in foreign currency accounts with foreign banks	4,582	4,206
Cash in foreign currency accounts with domestic financial institutions	89	90
Expected credit losses	(540)	(234)
Total	**280,645**	**219,199**

13. RECEIVABLES FROM THE CROATIAN NATIONAL BANK

	2022	*in HRK '000* 2021
Reserve requirement		
- HRK	-	83,763
Other deposits in CNB		
- HRK	13,640	-
Expected credit losses	(92)	(99)
Total	**13,548**	**83,664**

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 2022 was 1% (2021: 9%) for HRK and foreign currency deposits, borrowings and issued debt securities.

As of 31 December 2022, the Bank's obligation to set aside reserve requirement has ended, while the percentage of maintaining the reserve requirement is 1%, which the Bank maintained on accounts with the Croatian National Bank.

At 31 December 2021, the HRK-denominated portion of the reserve requirement with the CNB amounted to 70%, and the foreign-currency denominated portion 0%, while the remaining 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

	2022	*in HRK '000* 2021
Deposits with foreign banks	18,287	17,685
Deposits with domestic banks	425	424
Expected credit losses	-	-
Total	**18,712**	**18,109**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	*in HRK '000* 2021
Foreign government bonds	52,185	103,618
Bonds of the Republic of Croatia with a currency clause	11,031	60,748
Treasury bills with a currency clause of the Republic of Croatia	120,619	82,742
HRK-denominated treasury bills of the Republic of Croatia	239,931	115,053
HRK-denominated bonds of the Republic of Croatia	8,539	9,002
Shares	196	196
Foreign corporate bonds	249	232
Expected credit losses	(221)	(148)
Accrued interest	180	506
Total	**432,709**	**371,949**

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

	Treasury bills	Bonds	Shares	Accrued interest	*in HRK '000* TOTAL
At 1 January 2022	**197,699**	**173,548**	**196**	**506**	**371,949**
Purchase	360,079	-	-	-	360,079
Change in fair value	-	(11,220)	-	-	(11,220)
Sale/maturity	(197,699)	(90,065)	-	-	(287,764)
Other (write-off, foreign exchange differences)	430	(439)	-	(326)	(335)
At 31 December 2022	**360,509**	**71,824**	**196**	**180**	**432,709**

	Treasury bills	Bonds	Shares	Accrued interest	*in HRK '000* 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/maturity	(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**

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

As at 31 December 2022, the Bank has pledged, based on received HRK 140,000 thousand of structured loans with financial insurance by the Croatian National Bank (2021: HRK 140,000 thousand of structured loans received from the Croatian National Bank and HRK 15,034 thousand of repo loans received from Erste&Steiermärkische Bank) the treasury bills in the total amount of HRK 149,404 thousand (2021: HRK 164.151 thousand of treasury bills and government bonds) (Note 24).
There were no securities received as pledge as at 31 December 2022, since there were no placements in repo loans (2021: 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 HRK '000*
	31 December 2022				**31 December 2021**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign currency bonds	52,472	-	-	52,472	104,178	-	-	104,178
HRK-denominated bonds	19,575	-	-	19,575	69,876	-	-	69,876
Treasury bills	-	360,466	-	360,466	-	197,699	-	197,699
Shares	-	-	196	196	-	-	196	196
Total	**72,047**	**360,466**	**196**	**432,709**	**174,054**	**197,699**	**196**	**371,949**

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 HRK '000*
	31 December 2022				**31 December 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Retail								
Cash loans	155,622	75,757	9,080	240,459	196,189	23,468	13,082	232,739
Housing loans	41,236	12,538	311	54,085	49,076	5,899	1,765	56,740
Loans for agriculture	51,721	2,399	1,809	55,929	40,561	3,143	3,916	47,620
Other loans	33,847	1,076	504	35,427	33,167	1,944	3,225	38,336
Overdrafts on transaction accounts	18,148	186	1,296	19,630	16,797	518	1,518	18,833
Mortgage loans	11,610	3,736	807	16,153	14,106	740	1,282	16,128
Loans for tourism	2,020	1,347	2,792	6,159	42	3,643	6,558	10,243
Lombard loans	5,951	166	-	6,117	8,076	185	-	8,261
Margin loans	2,720	2,000	-	4,720	4,211	-	-	4,211
Total retail loans	**322,875**	**99,205**	**16,599**	**438,679**	**362,225**	**39,540**	**31,346**	**433,111**
Expected credit losses (principal)	*(5,759)*	*(3,847)*	*(5,982)*	*(15,588)*	*(5,940)*	*(1,444)*	*(5,987)*	*(13,371)*
Expected credit losses (interest)	*-*	*-*	*(115)*	*(115)*	*-*	*-*	*(204)*	*(204)*
Total expected credit losses	*(5,759)*	*(3,847)*	*(6,097)*	*(15,703)*	*(5,940)*	*(1,444)*	*(6,191)*	*(13,575)*
Accrued interest	1,554	506	186	2,246	1,661	221	299	2,181
Total retail loans, net	**318,670**	**95,864**	**10,688**	**425,222**	**357,946**	**38,317**	**25,454**	**421,717**
Corporate								
Syndicated loan	341,387	-	-	341,387	45,699	325,661	-	371,360
Investment loans	50,255	3,275	55,200	108,730	70,229	23,022	63,797	157,048
Working-capital loans	65,572	6,850	22,984	95,406	61,450	4,578	25,228	91,256
Lombard loans	1,383	45,962	-	47,345	1,434	45,856	-	47,290
Other loans	7,423	-	30,659	38,082	3,453	4,418	33,937	41,808
Overdrafts on transaction accounts	7,036	563	2,166	9,765	7,664	250	2,762	10,676
Loans for agriculture	6,255	-	913	7,168	1,557	135	1,046	2,738
Loans for payments under guarantees	389	-	762	1,151	-	-	148	148
Total corporate loans	**479,700**	**56,650**	**112,684**	**649,034**	**191,486**	**403,920**	**126,918**	**722,324**
Expected credit losses (principal)	*(3,228)*	*(1,103)*	*(67,149)*	*(71,480)*	(3,026)	(1,828)	(64,797)	(69,651)
Expected credit losses (interest)	*-*	*-*	*(93)*	*(93)*	-	-	(115)	(115)
Total expected credit losses	*(3,228)*	*(1,103)*	*(67,242)*	*(71,573)*	**(3,026)**	**(1,828)**	**(64,912)**	**(69,766)**
Accrued interest	3,471	179	192	3,842	418	1,959	204	2,581
Total corporate loans, net	**479,943**	**55,726**	**45,634**	**581,303**	**188,878**	**404,051**	**62,210**	**655,139**
Total loans (gross)	***807,600***	***156,540***	***129,661***	***1,093,801***	**555,790**	**445,640**	**158,767**	**1,160,197**
Total credit losses on loans	*(8,987)*	*(4,950)*	*(73,339)*	*(87,276)*	(8,966)	(3,272)	(71,103)	(83,341)
Total loans and advances to customers, net	**798,613**	**151,590**	**56,322**	**1,006,525**	**546,824**	**442,368**	**87,664**	**1,076,856**

As at 31 December 2022, the gross exposure arising from customers in default was HRK 129,674 thousand (2021: HRK 158,767 thousand), and the associated credit loss amounted to HRK 73,339 thousand (2021: HRK 71,103 thousand).

16. LOANS AND ADVANCES TO CUSTOMERS

16.2. Changes in credit losses

Changes in credit losses are presented as follows:

								in HRK '000
	31 December 2022				**31 December 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	**8,966**	**3,272**	**71,103**	**83,341**	**6,749**	**3,937**	**70,673**	**81,359**
Impact on P&L								
Net credit losses on loans and advances to customers (Note 9)	(935)	1,370	6,764	7,200	2,226	541	5,492	8,259
Foreign exchange differences	14	138	-	152	(9)	(11)	134	114
Without impact on P&L								
Write-off	942	288	(4,647)	(3,417)	2,226	(1,195)	(5,196)	(6,391)
At 31 December	**8,987**	**5,068**	**73,220**	**87,276**	**8,966**	**3,272**	**71,103**	**83,341**

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

								in HRK '000
	31 December 2022				**31 December 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	**8,966**	**3,272**	**71,103**	**83,341**	**6,749**	**3,937**	**70,673**	**81,359**
Retail								
At 1 January	**5,940**	**1,444**	**6,190**	**13,574**	**5,241**	**1,714**	**5,989**	**12,944**
Overdrafts on transaction accounts	653	(10)	(84)	559	(322)	(59)	(596)	(977)
Mortgage loans	(44)	143	(139)	(40)	62	(12)	89	139
Housing loans	(151)	355	(69)	135	181	8	146	335
Cash loans	(862)	2,073	556	1,767	1,029	115	412	1,556
Loans for agriculture	245	(30)	(87)	128	(273)	(13)	(49)	(335)
Margin loans	(5)	7	-	2	3	(7)	-	(4)
Lombard loans	(6)	(3)	-	(9)	(19)	(2)	-	(21)
Loans for tourism	32	(87)	(96)	(151)	(1)	(220)	225	4
Other loans	(43)	(45)	(174)	(262)	39	(80)	(25)	(66)
At 31 December	**5,759**	**3,847**	**6,097**	**15,703**	**5,940**	**1,444**	**6,191**	**13,575**
Corporate								
At 1 January	**3,026**	**1,828**	**64,913**	**69,767**	**1,508**	**2,223**	**64,684**	**68,415**
Overdrafts on transaction accounts	16	24	(29)	11	49	(79)	345	315
Loans for payments under guarantees	1	-	114	115	-	-	46	46
Syndicated loan	371	(450)	-	(79)	(12)	(15)	-	(27)
Working-capital loans	478	(5)	241	714	394	(319)	1,442	1,517
Investment loans	(891)	(947)	2,142	304	1,086	(3)	730	1,813
Loans for agriculture	131	(3)	(3)	125	(21)	(30)	21	(30)
Lombard loans	4	730	-	734	14	111	-	125
Loans for tourism	-	(1)	(3)	(4)	-	(1)	-	(1)
Other loans	92	(73)	(133)	(114)	8	(59)	(2,356)	(2,407)
At 31 December	**3,228**	**1,103**	**67,242**	**71,573**	**3,026**	**1,828**	**64,912**	**69,766**
At 31 December	**8,987**	**4,949**	**73,339**	**87,276**	**8,966**	**3,272**	**71,103**	**83,341**

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 changes

	Stage 1	Stage 2	Stage 3	*in HRK '000* Total
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	-	2,422	(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**	**393,035**	**172,399**	**1,160,197**
At 1 January 2022	**594,763**	**393,035**	**172,399**	1,160,197
From Stage 1 to Stage 2	(60,291)	60,291	-	-
From Stage 1 to Stage 3	(5,017)	-	5,017	-
From Stage 2 to Stage 1	334,015	(334,015)		-
From Stage 2 to Stage 3	-	(2,908)	2,908	-
From Stage 3 to Stage 2	-	14,532	(14,532)	-
Newly approved loans	167,837	25,317	**-**	193,154
Derecognition of assets	(223,707)	286	(36,131)	(259,552)
At 31 December 2022	***807,600***	***156,539***	***129,661***	***1,093,800***

Note: The above amounts do not include interest receivable.

16.3.2. Changes in credit losses by credit risk stages

in HRK '000

	31 December 2022				31 December 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail								
From Stage 1 to Stage 2	-	1,213	-	1,213	-	(234)	-	(234)
From Stage 1 to Stage 3	-	-	1,301	1,301	-	-	(197)	(197)
From Stage 2 to Stage 1	(366)	-	0	(366)	259	-	-	259
From Stage 2 to Stage 3	-	-	949	949	-	-	(238)	(238)
From Stage 3 to Stage 2	-	(821)	-	(821)	-	2,818	-	2,818
Newly approved loans	2,543	-	-	2,543	1,767	-	-	1,767
Derecognition and changes in provisions	(1,764)	1,112	1,121	469	(248)	49	(481)	(680)
Foreign exchange differences	-	-	-	-	(8)	(1)	(3)	(12)
Corporate								
From Stage 1 to Stage 2	-	(57)	-	(57)	-	(115)	-	(115)
From Stage 1 to Stage 3	-	-	122	122	-	-	-	-
From Stage 2 to Stage 1	(524)	-	-	(524)	81	-	-	81
From Stage 2 to Stage 3	-	-	165	165	-	-	2	2
From Stage 3 to Stage 2	-	(343)	-	(343)	-	753	-	753
Newly approved loans	891	-	-	891	1,477	-	-	1,477
Derecognition and changes in provisions	(1,714)	265	3,106	1,657	(202)	92	2,675	2,565
Foreign exchange differences	14	19	119	152	(1)	(10)	137	126
Total (impact on P&L)	**(920)**	**1,388**	**6,883**	**7,351**	**3,125**	**3,352**	**1,895**	**8,372**

In 2022, the Bank sold a portion of its non-performing corporate and retail loans. Gross loans sold amounted to HRK 4,139 thousand.

17. INVESTMENT PROPERTY

in HRK '000	2022	2021
Investment property	35,810	35,530
Total	**35,810**	**35,530**

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 2022, 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 HRK '000	31.12.2022		31.12.2021	
	Decrease	**Increase**	**Decrease**	**Increase**
Investment property	(358)	358	(355)	355

17.1. Fair value hierarchy

in HRK '000	Level 1	Level 2	Level 3	Total
1 January 2022				
Investment property	-	-	35,810	35,810
Total	**-**	**-**	**35,810**	**35,810**

in HRK '000	Level 1	Level 2	Level 3	Total
1 January 2021				
Investment property	-	-	35,530	35,530
Total	**-**	**-**	**35,530**	**35,530**

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 HRK '000

	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 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**
At 1 January 2022	**12,615**	**3,313**	**14,811**	**15**	**5,815**	**36,569**	**25,558**	**2,270**	**27,828**	**64,397**
Additions	-	16	240	-	650	906	2,421	317	2,738	3,644
Transfer from account during the year	-	-	-	-	-	-	-	-	-	-
Disposals and retirements	-	-	(650)	-	-	(650)	-	-	-	(650)
At 31 December 2022	**12,615**	**3,329**	**14,401**	**15**	**6,465**	**36,825**	**27,979**	**2,587**	**30,566**	**67,391**
Accumulated depreciation/amortisation										
At 1 January 2021	**9,243**	**3,288**	**13,687**	**-**	**2,142**	**28,360**	**22,161**	**1,324**	**23,485**	**51,845**
Depreciation/amortisation 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**
Depreciation/amortisation for the year 2022	209	74	175	-	1,136	1,594	894	369	1,263	2,857
Disposals and retirements	-	-	(650)	-	-	(650)	-	-	-	(650)
At 31 December 2022	**9,656**	**3,079**	**13,016**	**-**	**4,420**	**30,171**	**23,619**	**1,953**	**25,572**	**55,743**
Net book amount at 31 December 2021	**3,168**	**308**	**1,320**	**-**	**2,531**	**7,342**	**2,833**	**686**	**3,519**	**10,861**
Net book amount at 31 December 2022	**2,959**	**250**	**1,385**	**-**	**2,045**	**6,654**	**4,360**	**634**	**4,994**	**11,648**

During the year, the Bank retired certain items of property and equipment with a total cost of HRK 650 thousand (2021: HRK 793 thousand) and sold a portion in the amount of HRK 0 thousand (2021: HRK 7 thousand).

At 31 December 2022, the Bank does not own any assets pledged as collateral, nor did it have any such assets in 2021.

At 31 December 2022, the balance of assets still in use although fully written off amounts to HRK 15,273 thousand (2021: HRK 16,407 thousand).

19. FORECLOSED ASSETS

Changes in foreclosed assets for uncollected receivables are as follows:

		in HRK '000
	2022	**2021**
At 1 January	20,472	**25,685**
Increase based on assets foreclosed	-	91
Decrease due to impairment (Note 13)	(88)	(159)
Decrease due to sale of foreclosed assets	(14,584)	(5,085)
Increase due to reclassification of assets held for sale	-	-
Other adjustments	-	(60)
Total	**5,800**	**20,472**

In 2022, the Bank sold foreclosed assets in the amount of HRK 14,584 thousand (2021: HRK 5,085 thousand) and realised a gain in the amount of HRK 5,626 thousand (2021: HRK 3,116 thousand).

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

				in HRK '000
	31.12.2022		**31.12.2021**	
	Decrease	**Increase**	**Decrease**	**Increase**
Foreclosed assets	(58)	58	(205)	205

20. OTHER ASSETS

	in HRK '000 2022	2021
Financial assets		
Trade receivables	1,885	1,946
Fees and commissions receivable	1,870	1,805
Receivables for third-party deposits made at court	13	13
Provisions for expected credit losses of financial assets	(748)	(827)
Non-financial assets		
Receivables from the state	17,304	17,304
Other receivables from employees	4,126	4,128
Other receivables	2,659	2,341
Receivables from domestic legal entities based on paid court costs	567	555
Cash in transit	10	9
Provisions for expected credit losses of non-financial assets	(8,100)	(8,350)
Total	**19,586**	**18,924**

21. LIABILITIES TO BANKS

	in HRK '000 2022	2021
Demand deposits		
- HRK	685	5,593
- foreign currency	2,823	678
Total demand deposits	3,508	6,271
Total	**3,508**	**6,271**

22. DEMAND DEPOSITS

	2022	*in HRK '000* 2021
Demand deposits - retail		
- HRK	209,152	159,997
- foreign currency	211,142	192,335
Total retail	**420,294**	**352,332**
Demand deposits - corporate		
- HRK	29,772	143,397
- foreign currency	175,391	31,621
Total corporate	**205,163**	**175,018**
Demand deposits - financial institutions		
- HRK	1,269	1,684
- foreign currency	-	-
Total financial institutions	**1,269**	**1,684**
Demand deposits - government and other institutions		
- HRK	15,137	54,118
- foreign currency	58,705	15,142
Total government and other institutions	**73,842**	**69,260**
Restricted deposits		
- HRK	15,947	12,064
- foreign currency	11,846	15,035
Total restricted deposits	**27,793**	**27,099**
Deposits of foreign entities		
- HRK	34,732	3,175
- foreign currency	5,467	36,181
Total foreign entities	**40,199**	**39,356**
Total	**768,560**	**664,749**

23. TERM DEPOSITS

in HRK '000	2022	2021
Deposits - retail		
- HRK	494,306	157,965
- foreign currency	10	540,482
Total retail	**494,316**	**698,447**
Deposits - corporate		
- HRK	642	77,393
- foreign currency	67,492	6,699
Total corporate	**68,134**	**84,092**
Deposits - financial institutions		
- HRK	-	6,000
Total financial institutions	-	**6,000**
Deposits of government and other institutions		
- HRK	134,126	9,789
Total government and other institutions	**134,126**	**9,789**
Deposits of foreign entities		
- HRK	46,799	2,474
- foreign currency	2,375	50,466
Total foreign entities	**49,174**	**52,940**
Deposits of non-profit organisations		
- Foreign currency	35	**33**
Total non-profit institutions	**35**	**33**
Accrued interests	**2,335**	**2,674**
Total	**748,120**	**853,975**

24. BORROWINGS

in HRK '000	2022	2021
Croatian National Bank	140,000	140,000
Domestic banks	1,063	1,525
Foreign banks	-	15,034
Accrued interest	879	516
Total	**141,942**	**157,075**

25. OTHER LIABILITIES

	2022	*in HRK '000* 2021
Financial liabilities		
Trade payables	2,059	1,118
Fees and commissions payable	108	137
Liabilities for savings deposit insurance	990	-
Other liabilities	560	-
Non-financial liabilities		
Liabilities to employees	2,353	2,259
Deferred income and accrued expenses	2,204	1,917
Other liabilities	2,860	1,579
Total	**11,134**	**7,010**

	2022	*in HRK '000* 2021
Lease liabilities		
- current	872	1,132
- non-current	1,242	1,477
Total	**2,114**	**2,609**

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	*in HRK '000* Net debt
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**
At 1 January 2022	**(157,075)**	**(2,609)**	**(159,684)**	**237,308**	**77,624**
Accrued interest	(3)	-	(3)	-	(3)
New leases/new borrowings	-	(664)	(664)	-	(664)
Cash flow	15,136	1,159	16,295	62,050	78,345
At 31 December 2022	**(141,942)**	**(2,114)**	**(144,056)**	**299,358**	**155,302**

26. PROVISIONS

	2022	*in HRK '000* 2021
Provisions for legal disputes	21,477	45,845
Provisions for contingent liabilities and commitments	6,369	4,831
Provisions for termination benefits	78	104
Provisions for unused vacation days	205	130
Other provisions	556	431
Total	**28,685**	**51,341**

Movements in provisions are presented as follows:

	2022	*in HRK '000* 2021
At 1 January	**51,341**	**49,441**
Reversal of provisions for legal disputes against the bank (Note 10)	(9,955)	(50)
New provisions for legal disputes (Note 10)	862	940
Changes in provisions for contingent liabilities and commitments (Note 10)	1,538	1,492
Cost of provisions for termination benefits, vacation days etc. (Note 8)	193	119
Changes in other provisions	85	(260)
Changes in payments made under legal disputes	(15,275)	(6)
Changes in payments made under termination benefits	(104)	(335)
At 31 December	**28,685**	**51,341**

In 2022, the Bank paid HRK 15,275 thousand from the provisions for legal disputes (2021: HRK 6 thousand). The total amount of legal disputes against the Bank as at 31 December 2022 amounted to HRK 125,291 thousand (31 December 2021: HRK 150,075 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 2022 and 2021, the sole shareholder of the Bank is the Croatian Deposit Insurance Agency, 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 (2021: HRK 474,600 thousand) consists of 4,746,000 shares with a nominal value of HRK 100 per share (2021: 4,746,000 shares with a nominal value of HRK 100 per share). Each share carries one vote.

28. OFF-BALANCE SHEET EXPOSURES

31 December 2022	Stage 1	Stage 2	Stage 3	*in HRK '000* Total
Guarantees	62,024	9,158	1,468	72,649
Unbacked letters of credit	-	-	-	-
Revolving loans	38,534	1,046	47	39,628
Other common risk-bearing off-balance sheet items	69,221	6,901	-	76,122
Total	**169,779**	**17,105**	**1,515**	**188,399**

31 December 2021	Stage 1	Stage 2	Stage 3	*in HRK '000* 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**

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, and letter of credit).

29. LEGAL DISPUTES

There are 46 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 2022, the provisions for losses from legal disputes filed against the Bank amounted to HRK 21,477 thousand (2021: HRK 45,845 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:

	2022	*in HRK '000* 2021
Cash on hand and on current accounts with banks (Note 12)	281,185	219,433
Balances with other banks with maturities up to 3 months (Note 14)	18,712	18,109
Total	**299,898**	**237,542**
Expected credit losses (Note 9)	(540)	(234)
Total	**299,357**	**237,308**

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 2022, key management personnel comprised 19 employees (2021: 18 employees).

The balances of assets and liabilities as well as income and expenses as at 31 December 2022 and 31 December 2021 and for the years then ended resulting from key transactions with related parties are as follows:

				in HRK '000
2022	**Receivables**	**Liabilities**	**Income**	**Expenses**
CDIA (sole shareholder)	38	33,567	4	7
Key management				
Short-term (a vista deposits, bonuses, salaries, benefits)	67	2,353	13	4,500
Pension contributions	-	-	-	874
Long-term (loans, term deposits and other)	1,742	743	58	4
State in narrow and broad definitions	799,798	117,411	14,253	1,584
Total	**801,645**	**154,074**	**14,328**	**6,969**

				in HRK '000
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**

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel

Key management personnel do not hold any of the Bank's shares. Loans and receivables from customers include HRK 1,807 thousand (2021: HRK 1,841 thousand) of loans to key management personnel. During the year, the Bank collected interest in the amount of HRK 63 thousand (2021: 78 HRK thousand) from loans and receivables from key management personnel granted at annual interest rates ranging from 2.53% to 4.07% (2021: from 3.00% to 4.41%). The balance of current accounts and customer deposits includes term deposits of key management personnel in the amount of HRK 743 thousand (2021: HRK 937 thousand). The interest that the Bank paid on those deposits in 2022 amounted to HRK 4 thousand (2021: 4 HRK thousand) at an annual interest rate ranging from 0.10% - 0.55 (2021: 0.15% - 1.00%).

In 2022, costs in respect of the Supervisory Board amounted to HRK 371 thousand (2021: HRK 349 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 2022, 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 308,605 thousand (2021: HRK 327,114 thousand) under a syndicated loan.

The Bank's exposure to HŽ Cargo amounted to HRK 35,729 thousand (2021: HRK 45,699 thousand). The receivables from Borovo d.d. amounted to HRK 50,875 thousand (2021: HRK 45,984 thousand). The receivables from the Đuro Đaković Group amounted to HRK 2,856 thousand (2021: HRK 6,138 thousand).

The Bank's exposures to the Ministry of Finance under the Ministry's quoted bonds amount to HRK 19,640 thousand (2021: HRK 69,912 thousand), and those under treasury bills issued by the Ministry of Finance amount to HRK 360,551 thousand (2021: HRK 197,796 thousand).

The restricted deposit of the Ministry of Finance amounted to HRK 15,069 thousand (2021: HRK 15,034 thousand).

As at 31 December 2022, the Restructuring and Sale Centre holds HRK 27 thousand on the transaction account at the Bank (2021: HRK 5,428 thousand).

As at 31 December 2022, the Bank's shareholder, the Croatia Agency for Deposit Insurance and Bank Rehabilitation, holds HRK 33,567 thousand on the transaction account (2021: HRK 34,101 thousand).

As at 31 December 2022, the amount owed by the Bank for loans received from the Croatian Bank for Reconstruction and Development (joint customer funding with CBRD) was HRK 1,071 thousand (2021: HRK 1,525 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 2022 treated as key transactions is as follows:

- income from loans to Hrvatske autoceste in 2021 amounts to HRK 7,497 thousand (2021: HRK 6,353 thousand).
- income from loans to HŽ Cargo in 2022 amounts to HRK 1,844 thousand (2021: HRK 2,284 thousand).
- income from securities of the Republic of Croatia amounts to HRK 450 thousand (2021: HRK 424 thousand).

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

- costs of loans received from CBRD in 2022 in the amount of HRK 44 thousand (2021: HRK 69 thousand).
- in 2022, expenses in respect of CDIA, relating to costs for the savings deposit insurance, amounted to HRK 1,985 thousand (there were no expenses in respect of CDIA)

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

31 December 2022	Key management personnel	*in HRK '000* State in narrow and broad definition
Credit lines and other off-balance-sheet items	317	9.504

31 December 2021	Key management personnel	*in HRK '000* State in narrow and broad definition
Credit lines and other off-balance-sheet items	292	18.382

The Bank's maximum off-balance sheet exposure to the state in narrow and broader definitions relates to Borovo d.d. in the amount of HRK 2,845 thousand (2021: Đuro Đaković Specijalna vozila, joint-stock company for production and services in the amount of HRK 9,914 thousand). All exposures presented in this note are on a gross basis (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 Credit Analysis 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 Credit Analysis 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 Credit Analysis 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 follow-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

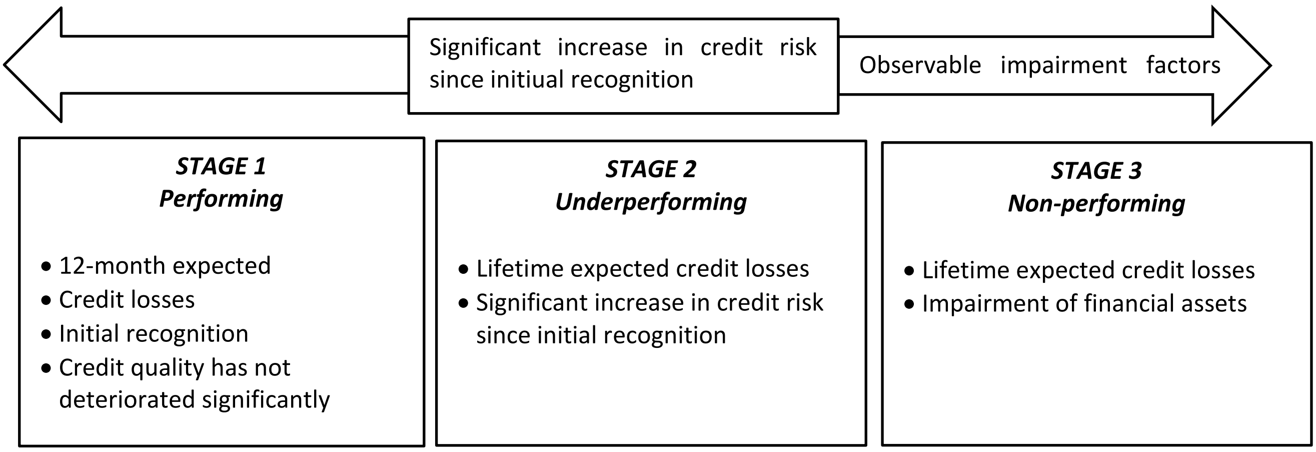
The expected credit losses are calculated as a multiple of PD (Probability of Default), Loss Given Default (LGD) and Exposure at Default (EAD) over the remaining expected life of the financial asset and are discounted at the reporting date at the effective interest rate for exposures with a significant 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



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 monitoring status 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.

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 - the exposure for which a special monitoring status is assigned, i.e. the exposure is not included in further monitoring.

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

The Bank calculates the exposure at default (EAD):

- 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.

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

1.1. fully recoverable loans– placements 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 placements 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 management (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 (Risk placement management 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 related to loans

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 depend 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 2022

in HRK '000

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	775	4,029	1,743	6,386	15	838	13,786
31-60 days	216	1,619	20	8	3	369	2,235
61-90 days	242	-	-	383	1	3	629
Over 90 days	2,431	68,546	985	2,184	2	21,033	95,181
Not past due	238,115	159,860	66,922	20,527	54,235	442,310	981,969
Total	**241,779**	**234,054**	**69,670**	**29,488**	**54,256**	**464,553**	**1,093,800**

Past due loans and receivables by type at 31 December 2021

in HRK '000

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**	**1,160,197**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.6. Past due and not past due loans and receivables (continued)

Unimpaired loans at 31 December 2022

in HRK '000

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	232,438	149,892	62,467	20,336	53,924	431,111	950,168
Past due	149	5,464	1,624	5,672	14	1,049	13,972
Total	**232,587**	**155,356**	**64,091**	**26,008**	**53,938**	**432,160**	**964,140**

Unimpaired loans at 31 December 2022

in HRK '000

	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 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 2022 amounted to HRK 344,333 thousand (2021: HRK 373,060 thousand), as well as Lombard loans in the amount of HRK 53,593 thousand (2021: HRK 55,685 thousand), margin loans in the amount of HRK 4,750 thousand (2021: HRK 4,255 thousand) and mortgage loans in the amount of HRK 15,408 thousand (2021: HRK 14,906 thousand). The remaining balance comprises individual smaller loans intended for diverse purposes.

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.7. Impaired loans

Impaired loans at 31 December 2022

in HRK '000

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	5,677	9,968	4,455	191	312	11,200	31,803
Past due	3,515	68,729	1,124	3,288	7	21,194	97,857
Total	**9,192**	**78,697**	**5,579**	**3,479**	**319**	**32,394**	**129,660**
Credit losses	**3,985**	**45,102**	**788**	**1,724**	**97**	**21,644**	**73,340**

Impaired loans at 31 December 2021

in HRK '000

	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**

The line item 'Other' mainly comprises loans to customers undergoing pre-bankruptcy in the amount of HRK 10,699 thousand (2021: HRK 12,690 thousand and loans for financial restructuring in the amount of HRK 1,098 thousand (2021: HRK 19,187 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 at 31 December 2022

in HRK '000

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 %
Civil engineering	418,126	380,359	37,767	27,663	**6.62%**
Sector outside the National Classification of Activities - natural persons	353,445	247,252	106,193	14,174	**4.01%**
Manufacturing	154,037	48,245	105,792	29,671	**19.26%**
Agriculture, hunting, forestry and fishing	116,912	107,190	9,722	6,439	**5.51%**
Wholesale and retail trade, repair of motor vehicles and household items	76,664	62,957	13,707	8,659	**11.29%**
Transport, storage and connections	58,048	43,308	14,740	924	**1.59%**
Real estate business, renting	47,421	40,300	7,121	2,526	**5.33%**
Other social and personal service activities	14,935	11,565	3,370	2,516	**16.85%**
Hotels and restaurants	13,921	8,012	5,909	510	**3.66%**
Financial intermediation	9,363	9,363	-	528	**5.64%**
Public administration and defence; social security	7,907	7,907	-	183	**2.31%**
Electricity, gas and water supply	6,895	6,670	225	109	**1.58%**
Education	3,458	3,458	-	64	**1.85%**
Health care and social care	914	867	47	17	**1.86%**
Mining and ore extraction	152	152	-	1	**0.66%**
TOTAL	**1,282,198**	**977,605**	**304,593**	**93,984**	**7.33%**

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

in HRK '000

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 %
Civil engineering	443,687	67,361	376,326	27,959	**6.30%**
Sector outside the National Classification of Activities - natural persons	351,985	303,132	48,853	11,090	**3.15%**
Manufacturing	175,771	45,768	130,003	28,934	**16.46%**
Agriculture, hunting, forestry and fishing	111,297	96,315	14,982	6,545	**5.88%**
Wholesale and retail trade, repair of motor vehicles and household items	69,257	47,686	21,571	7,654	**11.05%**
Transport, storage and connections	67,033	65,026	2,006	641	**0.96%**
Real estate business, renting	52,731	37,549	15,182	1,315	**2.49%**
Other social and personal service activities	15,188	11,710	3,479	2,462	**16.21%**
Hotels and restaurants	15,490	6,448	9,042	584	**3.77%**
Financial intermediation	19,991	14,751	5,240	720	**3.60%**
Public administration and defence; social security	7,523	5,370	2,153	196	**2.61%**
Electricity, gas and water supply	7,582	6,504	1,077	154	**2.03%**
Education	4,087	1,281	2,806	182	**4.45%**
Health care and social care	1,342	898	444	28	**2.09%**
Mining and ore extraction	-	-	-	-	-
TOTAL	**1,342,964**	**709,799**	**633,164**	**88,464**	**6.59%**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.9. Loans and advances to customers in risk groups B and C for which provisions have been made

			in HRK '000
	Retail	**Corporate**	**Total**
31 December 2022			
Total exposure	16,785	112,875	129,660
Provisions	6,097	67,242	73,339
Total net exposure	10,688	45,633	56,321
Market value of collateral	6,263	54,359	60,622
% of collateral coverage	58,60%	119,12%	107,64%

			in HRK '000
	Retail	**Corporate**	**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	17,411	69,335	86,746
% of collateral coverage	68,40%	111,46%	98,95%

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.

As the basis for creating a stress test scenario The Bank uses the stress scenario as published in Financial Stability document published by the CNB.
On this basis, the Bank uses the following parameters and indicators in stress testing:

- Increase in Stage 3 loans in total loans by 35%,
- 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 14%.

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 HRK '000

	Rating agency	31 December 2022	31 December 2021
Cash		**280,645**	**219,199**
Ba1	Moody's	-	195,272
A1	Moody's	3,822	3,918
Baa1	Moody's	758	287
Baa2	Moody's	251,005	4,010
A-	Fitch	8,078	-
BBB+	Fitch	-	4,103
BBB	Fitch	12,432	9,133
No rating	-	4,550	2,476
Receivables from the Croatian National Bank		**13,548**	**83,664**
Baa2	Moody's	13,548	-
Ba1	Moody's	**-**	83,664
Placements with banks		**18,712**	**18,109**
Aaa	Moody's	18,287	17,686
A-	Fitch	425	-
BBB+	Fitch	-	423
No rating	-	-	-
Financial assets at fair value through OCI		**432,709**	**371,949**
Ba1	Moody's	-	267,575
Baa2	Moody's	379,980	-
Aaa	Moody's	31,857	45,971
Aa2	Moody's	20,432	23,085
Aa3	Moody's	-	34,885
No rating	-	440	433
Financial assets at fair value through profit or loss		**-**	**-**
No rating	-	-	-
Financial assets at amortised cost		**34**	**2,342**
No rating	-	34	2,342
Loans and advances to customers		**1,006,524**	**1,076,856**
No rating	-	1,006,524	1,076,856
Other financial assets		**3,020**	**4,883**
No rating	-	3,020	4,883

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 ratios.

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 2022 reflect undiscounted cash flows including future interest payments in the amount of HRK 3,616 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in HRK '000

2022	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	280,645	-	-	-	-	**280,645**
Receivables from the Croatian National Bank	13,548	-	-	-	-	**13,548**
Placements with banks	-	18,287	425			**18,712**
Financial assets at fair value through other comprehensive income	30,000	25,595	72,677	257,695	46,742	**432,709**
Financial assets at amortised cost	34					**34**
Loans and advances to customers	538,860	339,457	117,984	292	9,932	**1,006,525**
Trade receivables	1,885	-	-	-	-	**1,885**
Fees and commissions receivable	1,870	-	-	-	-	**1,870**
Receivables for third-party deposits made at court	13	-	-	-	-	**13**
Provisions for expected credit losses on financial assets	(748)	-	-	-	-	**(748)**
Total assets	**866,107**	**383,339**	**191,086**	**257,987**	**56,674**	**1,755,193**
LIABILITIES						
Liabilities to banks	3,508	-	-	-	-	**3,508**
Demand deposits	768,560	-	-	-	-	**768,560**
Term deposits	737,669	278	4,268	5,836	69	**748,120**
Borrowings	959	121	18	140,844	-	**141,942**
Lease liabilities	82	150	640	1,097	145	**2,114**
Trade payables	2059	-	-	-	-	**2,059**
Fees and commissions payable	108	-	-	-	-	**108**
Liabilities for savings deposit insurance	990	-	-	-	-	**990**
Total liabilities	**1,513,935**	**549**	**4,926**	**147,777**	**214**	**1,667,401**
Off-balance-sheet items						
Payment guarantee	2,995	-	-	-	-	**2,995**
Performance guarantee	60,590	4,044	2,057	2,963	-	**69,654**
Unbacked letters of credit	-	-	-	-	-	**-**
Revolving loans and credit lines	31,296	1,895	4,786	1	1,650	**39,628**
Other common risk-bearing off-balance sheet items	37,048	593	3,608	10,836	24,037	**76,122**
Total off-balance sheet items	**131,929**	**6,532**	**10,451**	**13,800**	**25,687**	**188,399**
Net assets/liabilities	**(779,757)**	**376,258**	**175,709**	**96,410**	**30,773**	**(100,607)**

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 HRK '000

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**
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 liabilities	**749,453**	**94,909**	**405,355**	**286,485**	**154,856**	**1,691,058**
Off-balance-sheet items						
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	**(365,132)**	**84,500**	**(185,116)**	**(66,039)**	**433,019**	**(98,768)**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risks

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 impairment.

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 32.14.2. 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 32.14.1.).

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 risks (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 2022 amounted to HRK 3.2 thousand (2021: HRK 4.3 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 HRK '000

Currency	Long/short position 31 December 2022	% of recognised capital	Scenario 1	Scenario 2	Scenario 3
EUR – open position	852,161	0,68%	268	1,301	2,135
USD - open position	67,589	0,05%	152	729	1,101
CHF - open position	19,333	0,02%	30	152	217
AUD - open position	93,607	0,07%	239	1,042	1,516
Total	**-**	**-**	**688**	**3,224**	**4,968**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risks (continued)

32.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2022 are presented as follows:

in HRK '000

2022	EUR	USD	Other	HRK with currency clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	13,327	2,659	30,591	-	46,577	234,068	280,645
Receivables from the Croatian National Bank	-	-	-	-	-	13,548	13,548
Placements with banks	425	10,597	7,690	-	18,712	-	18,712
Financial assets at fair value through other comprehensive income	52,588	-	-	131,652	184,240	248,469	432,709
Financial assets at amortised cost	-	-	-	-	-	34	34
Loans and advances to customers	1,240	2,681	-	604,356	608,277	398,248	1,006,525
Trade receivables	-	-	-	-	-	1,885	1,885
Fees and commissions receivable	-	-	-	-	-	1,870	1,870
Receivables for third-party deposits made at court	-	-	-	-	-	13	13
Provisions for expected credit losses on financial assets	-	-	-	-	-	(748)	(748)
Total assets	**67,580**	**15,937**	**38,281**	**736,008**	**857,806**	**897,387**	**1,755,193**
EQUITY AND LIABILITIES							
Liabilities to banks	589	96	181	-	866	2,640	3,506
Demand deposits	271,246	7,277	25,340	-	303,863	464,697	768,560
Term deposits	520,720	9,476	12,938	-	543,134	204,986	748,120
Borrowings	-	-	-	-	-	141,942	141,942
Trade payables	-	-	-	-	-	2,059	2,059
Fees and commissions payable	-	-	-	-	-	108	108
Liabilities for savings deposit insurance	-	-	-	-	-	990	990
Total liabilities	**792,555**	**16,849**	**38,459**	-	**847,863**	**817,424**	**1,665,287**
Net assets/liabilities and equity	**(724,975)**	**(912)**	**(178)**	**736,008**	**9,943**	**79,963**	**89,906**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risks (continued)

32.14.1. Currency risk (continued)

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

in HRK '000

2021	EUR	USD	Other	HRK with 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 risks (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 risks (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 2022, classified into categories by the earlier of contractual repricing and maturity.

in HRK '000

2022	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		-	-	-	-	280,645	**280,645**
Receivables from the Croatian National Bank	-	-	-	-	-	13,548	**13,548**
Placements with banks	18,287	-	425	-	-	-	**18,712**
Financial assets at fair value through other comprehensive income	30,000	72,878	242,618	28,061	59,152	-	**432,709**
Financial assets at amortised cost	-	-	-	-	-	34	**34**
Loans and advances to customers	264,599	165,974	295,747	110,754	169,451	-	**1,006,525**
Trade receivables	-	-	-	-	-	1,885	**1,885**
Fees and commissions receivable	-	-	-	-	-	1,870	**1,870**
Receivables for third-party deposits made at court	-	-	-	-	-	13	**13**
Total assets	**312,886**	**238,852**	**538,790**	**138,815**	**228,603**	**297,995**	**1,755,941**
EQUITY AND LIABILITIES							
Liabilities to banks	-	-	3,508	-	-	-	**3,508**
Demand deposits	196,666	28,151	161,295	174,844	174,844	32,760	**768,560**
Term deposits	46,332	86,277	399,120	182,322	13,357	20,712	**748,120**
Borrowings	140,943	166	395	438	-	-	**141,942**
Trade payables	-	-	-	-	-	2,059	**2,059**
Fees and commissions payable	-	-	-	-	-	108	**108**
Liabilities for savings deposit insurance	-	-	-	-	-	990	**990**
Total liabilities	**383,941**	**114,594**	**564,318**	**357,604**	**188,201**	**56,629**	**1,665,287**
Net assets/liabilities and equity	**(71,055)**	**124,258**	**(25,529)**	**(218,789)**	**40,402**	**241,366**	**90,654**

32. RISK MANAGEMENT POLICIES (CONTINUED)

32.14. Market risks (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 HRK '000

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 risks (continued)

32.14.2. Interest rate risk (continued)

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

	2022	*u %* 2021
Assets		
Cash	(0.50)-0.00	(0.50)-0.00
Placements with banks	(0.75)-0.00	(0.90)-0.20
Financial assets at fair value through other comprehensive income	(0.07)-1.29	0.00-2.00
Loans and advances to customers	2.01-6.70	2.10-6.90
Equity and liabilities		
Liabilities to banks	0.01-0.03	(0.10)-0.00
Demand deposits	0.00-0.05	0.00-0.05
Term deposits	0.01-1.20	0.01-1.20
Borrowings	(0.10)-0.40	1.00-4.00

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.

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 2022
Bank's total open FX position	25.00%	1.02%
Maximum open FX position in EUR	20.00%	0.68%
Maximum open FX position in USD	10.00%	0.05%
Maximum open FX position in other currencies	5.00%	0.32%

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 2022, is as follows:

	Internal limit	Internal early warning system	At 31 December 2022
Δ EVE – regulatory shocks/Regulatory capital	< 16%	>16%	3.98%
Δ EVE – 6 additional shocks/Tier 1 capital	< 11%	>11%	10.19%
Annual interest margin loss/Net interest income	<1%	<0,5%	11.66%

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 HRK '000
	Carrying value		**Fair value**	
	2022	**2021**	**2022**	**2021**
Financial assets				
Cash	280,645	219,199	280,645	219,199
Receivables from the Croatian National Bank	13,548	83,664	13,548	83,664
Placements with banks	18,712	18,109	18,712	18,109
Loans and advances to customers	1,006,524	1,076,856	986,522	1,058,217
Financial assets at FVOCI	432,709	371,949	432,709	371,949
Financial assets at FVPL	-	434	-	434
Financial liabilities				
Deposits from banks	3,508	6,271	3,508	6,271
Deposits from customers	1,516,680	1,518,724	1,516,528	1,518,724
Borrowings	141,942	157,075	141,942	157,075

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 HRK '000
	Carrying value		**Fair value**	
	2021	**2022**	**2021**	**2021**
Corporate				
Financial assets				
Loans and receivables from customers	581,303	655,137	580,046	654,173
Financial liabilities				
Deposits from customers	510,362	375,649	510,284	375,571
Retail				
Financial assets				
Loans and receivables from customers	425,221	421,719	406,477	404,044
Financial liabilities				
Deposits from customers	1,006,318	1,143,075	1,006,244	1,143,001

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

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

						in HRK '000
		2022			**2021**	
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Cash	36,245	244,400	-	17,208	201,991	-
Receivables from the Croatian National Bank	-	13,548	-	-	83,664	-
Placements with banks	-	18,712	-	-	18,109	-
Loans and receivables from customers	-	1,006,525	-	-	1,076,856	-
Financial assets at FVOCI	72,142	360,370	196	174,054	197,699	196
Financial assets at FVPL	-	-	-	-	-	-
Financial assets at amortised cost	-	34	-	-	2,342	-
Financial liabilities						
Deposits from banks	-	3,508	-	-	6,271	-
Deposits from customers	-	768,560	-	-	664,749	-
Loans taken	-	748,120	-	-	853,975	-
Borrowings	-	141,942	-	-	157,075	-

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.

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 HRK ‘000
	2022	**2021**
Regulatory capital		
Tier 1 capital		
Issued share capital	474,600	474,600
Share premium	-	-
Accumulated loss	(339,648)	(355,160)
Legal, statutory and other reserves	-	-
Deductions according to the Regulation (EU) No. 575/2013 /i/	(8,998)	(4,969)
Total Tier 1 capital	**125,954**	114,471
Additional capital		
Total additional capital	**-**	-
Deductions from investments in banks and other financial institutions	**-**	-
Total regulatory capital	**125,954**	**114,471**

/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 2022, the Bank's regulatory capital amounted to HRK 125,954 thousand (2021: HRK 114,471 thousand).

34. CAPITAL MANAGEMENT (CONTINUED)

	2022	*in HRK '000* 2021
Total capital ratio according to Regulation EU No. 575/2013		
Capital requirements		
Credit risk exposure	43,042	48,055
Balance sheet items	41,562	*46,008*
Off-balance sheet items	1,480	*2,047*
Currency risk exposure	-	-
Operational risk exposure	9,013	9,535
Capital requirements for total capital ratio	**52,055**	**57,590**
Additional capital requirements		
Capital requirements for prescribed additional capital rate	14,742	22,964
Capital conservation buffer	13,451	17,997
Systemic risk buffer	8,070	10,798
Total capital requirements	**88,318**	**109,349**
Common Equity Tier 1 capital ratio	**19.36%**	**15.90%**
Tier 1 capital ratio	**19.36%**	**15.90%**
Total capital ratio	**19.36%**	**15.90%**

The comparative information presents the total capital ratio in accordance with the requirements of Regulation (EU) No. 575/2013. As at 31 December 2022, the total capital ratio was 19,36% (2021: 15.90%).

As at 31 December 2022, the Bank meets all capital requirements as at 31 December 2021.

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 HRK '000

	2022			2021		
	Assets	**Liabilities**	**Off-balance sheet items**	**Assets**	**Liabilities**	**Off-balance sheet items**
Geographical region						
Republic of Croatia	1,751,012	1,738,801	188,396	1,733,880	1,767,949	182,757
Europe	59,470	37,282	-	109,529	34,888	-
Other	18,361	52,760	3	17,770	58,342	10
Total by geographical region	**1,828,843**	**1,828,843**	**188,399**	**1,861,179**	**1,861,179**	**182,767**
Sector						
Republic of Croatia (state)	404,059	29,020	2,344	294,585	25,004	1,532
Croatian National Bank	225,087	365,050	-	238,643	262,766	-
Trade and commerce	52,237	28,424	25,363	60,074	32,495	12,992
Finance	54,174	44,047	4,047	80,350	61,702	2,983
Tourism	14,263	2,196	1,297	17,196	2,344	499
Agriculture	111,546	5,798	6,014	103,375	7,099	8,440
Industry	494,944	43,594	92,988	523,375	36,109	105,361
Individuals	353,157	1,128,383	15,913	350,360	1,136,026	16,674
Other	119,376	194,792	40,433	193,221	297,634	34,286
Total by sector	**1,828,843**	**1,828,843**	**188,399**	**1,861,179**	**1,861,179**	**182,767**

36. EVENTS AFTER THE BALANCE SHEET DATE

Change of business model

On 27 December 2022, the Bank's Management Board passed the Decision on the change of the business model of debt securities from a model measured at fair value to a model measured at amortized cost in accordance with IFRS 9 - Financial Instruments.

As a result of the change in the business model, the reclassification of debt securities will be carried out on 1 January 2023 with their balance as of 31 December 2022.

Introduction of euro as official currency in the Republic of Croatia

On 12 July 2022, the Council for Economic and Financial Affairs of the European Union adopted three legal acts that enabled the Republic of Croatia to introduce the euro as its currency from 1 January 2023: Decision of the Council on the introduction of the euro in the Republic of Croatia on 1 January 2023, the Council Regulation regarding the introduction of the euro in the Republic of Croatia and the Council Regulation regarding the conversion rate for the Republic of Croatia (the conversion rate between the euro and the Croatian kuna is HRK 7.53450 for 1 EUR).

At the session held on 21 July 2022, the Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency of the Republic of Croatia (Official Gazette 85/2022).

Further to the aforementioned decisions, the Republic of Croatia introduced the euro as its official currency on 1 January 2023, thus becoming the twentieth member of the Eurozone.

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 2022

BAN-BIL form

Entity: CROATIA BANKA d.d.

Item	AOP mark	Note 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	-	219,198,403	280,646,332
1.1. Cash on hand	002		15,951,434	36,245,593
1.2. Cash receivables from central banks	003		179,320,295	210,928,483
1.3. Other demand deposits	004		23,926,674	33,472,256
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		0	0
3.1. Equity instruments	011		0	0
3.2. Debt securities	012		0	0
3.3. Loans and advances	013		0	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		371,950,621	432,708,695
5.1. Equity instruments	018		196,281	196,409
5.1. Debt securities	019		371,754,340	432,512,286
5.2. Loans and advances	020		0	0
6. Financial assets at amortised cost (AOP 022+023)	021		1,205,252,626	1,070,388,205
6.1. Debt securities	022		2,331,564	0
6.2. Loans and advances	023		1,202,921,062	1,070,388,205
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		43,849,384	42,464,468
11. Intangible assets	028		3,519,253	4,994,085
12. Tax assets	029		3,274,448	3,827,350
13. Other assets	030		20,117,268	6,275,235
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		1,867,162,003	1,841,304,370

Item	AOP mark	Note 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**		1,684,697,586	1,664,209,172
18.1. Deposits	**044**		1,681,956,719	1,661,987,168
18.2. Debt securities issued	**045**		0	0
18.3. Other financial liabilities	**046**		2,740,867	2,222,004
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**		51,107,193	28,361,421
22. Tax payable	**050**		271,021	292,262
23. Share capital repayable on demand	**051**		0	0
24. Other liabilities	**052**		12,936,832	23,661,689
25. Liabilities of disposal groups held for sale	**053**		0	0
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 to 053)	**054**		1,749,012,632	1,716,524,544
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**		-1,290,853	-10,172,665
32. Retained earnings	**060**		-364,484,097	-355,159,776
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**		9,324,321	15,512,267
37. Dividends for the year	**065**		0	0
38. Minority (non-controlling) interests	**066**		0	0
39. TOTAL EQUITY (AOP 055 to 066)	**067**		118,149,371	124,779,826
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	**068**		1,867,162,003	1,841,304,370

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement for the period from 1 January 2021 to 31 December 2022 - BAN-RDG form

Entity: CROATIA BANKA d.d.

Item	AOP mark	Note no.	Previous year	Current year
1	2	3	4	5
1. Interest income	069		50,296,155	48,401,747
2. Interest expense	070		4,503,761	3,615,129
3. Expenses from share capital repayable on demand	071		0	0
4. Dividend income	072		0	0
5. Fee and commission income	073		11,761,986	14,468,421
6. Fee and commission expense	074		3,197,817	3,317,364
7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	075		-228,232	-420,433
8. Gains or losses on financial assets and liabilities held for trading, net	076		2,583,119	4,135,880
9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net	077		-158,724	0
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		(90,892)	(313,683)
13. Gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, net	082		0	12,249,887
14. Gains or losses on derecognition of non-financial assets, net	083		10,941,658	12,249,887
15. Other operating income	084		274,158	290,027
16. Other operating expenses	085		67,129,334	71,299,299
17. TOTAL OPERATING INCOME; NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	086		45,575,553	49,496,512
18. Administrative expenses	087		15,033	1,010,433
19. Contributions in cash to rehabilitation committees and deposit insurance schemes	088		2,420,989	2,856,780
20. Depreciation and amortisation	089		-10,935	2,185
21. Gains or losses on changes, net	090		3,201,972	-6,509,110
22. Provisions or reversal of provisions	091		8,441,254	7,433,998
23. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss	092		0	0
24. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	093		259,335	88,155
25. Impairment or reversal of impairment of non-financial assets	094		0	0
26. Negative goodwill recognised in profit or loss	095		0	0
27. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method	096		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	097		7,204,263	16,924,716
29. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094)	098		(2,120,056)	1,412,449

Item	AOP mark	Note no.	Previous year	Current year
1	2	3	4	5
31. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**099**		9,324,319	15,512,267
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**		9,324,319	15,512,267
34. Attributable to minority (non-controlling) interest	**104**			0
35. Attributable to owners of the parent company	**105**		9,324,319	15,512,267
STATEMENT OF OTHER COMPREHENSIVE INCOME				
1. Profit or loss for the year (AOP 101)	**106**		9,324,319	15,512,267
2. Other comprehensive income (AOP 106 to 118)	**107**		(1,947,883)	(8,881,813)
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**		(1,947,883)	(8,881,813)
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**		(2,359,214)	(10,847,539)
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**		411,331	1,965,726
3. Total comprehensive income for the year (AOP 104 + 105 and AOP 128 + 129)	**129**		7,376,436	6,630,454
4. Attributable to minority (non-controlling) interest	**130**		0	0
5. Attributable to owners of the parent company	**131**		7,376,436	6,630,454

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

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

Entity: CROATIA BANKA d.d.

Item	AOP mark	Note no.	Previous year	Current year
1	2	3	4	5
Operating activities and adjustments				
1. Profit/loss before tax	001		7,204,265	16,924,715
2. Impairment losses and provisions	002		12,059,623	566,948
3. Depreciation and amortisation	003		2,407,890	2,856,780
4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	004		(2,354,887)	(3,715,447)
5. Gains/losses on sale of tangible assets	005		(3,048,134)	(5,626,412)
6. Other non-cash items	006		2,238,555	3,788,565
Movements in assets and liabilities from operating activities				
7. Deposits with CNB	007		2,187,626	70,122,648
8. Deposits with financial institutions and loans to financial institutions	008		0	0
9. Loans and advances to other customers	009		(92,864,089)	(185,704,854)
10. Securities and other financial instruments at fair value through other comprehensive income	010		35,124,294	72,314,310
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		(2,367,562)	2,367,562
15. Other assets from operating activities	015		79,963,678	53,795,954
Increase/decrease in operating liabilities				
16. Deposits from financial institutions	016		1,387,065	(3,176,987)
17. Transaction accounts of other customers	017		(362,610)	103,027,956
18. Savings deposits of other customers	018		10,000,451	(484,836)
19. Term deposits of other customers	019		(58,961,005)	(104,176,372)
20. Derivative financial liabilities and other trading liabilities	020		0	0
21. Other liabilities	021		385,989	10,746,099
22. Outstanding interest from operating activities	022		48,365,206	44,694,774
23. Dividend received from operating activities	023		0	0
24. Interest paid from operating activities	024		(740,532)	(610,386)
25. Income tax paid	025		0	
A) Net cash flows from operating activities (AOP 001 to 025)	026		40,625,823	77,711,017
Investing activities				
1. Proceeds from sale/payments for purchases/of tangible and intangible assets	027		4,441,032	17,215,725
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		4,441,032	17,215,725
Financing activities				
1. Net increase/decrease in borrowings from financing activities	033		(22,754,485)	(15,492,996)
2. Net increase/decrease in issued debt securities	034		0	
3. Net increase/decrease in instruments of additional capital	035		0	
4. Share capital increase	036		0	
5. Dividend paid	037		0	
6. Other proceeds/payments from financing activities	038		(1,663,712)	(16,538,000)
C) Net cash flows from financing activities (AOP 033 to 038)	039		(24,418,197)	(32,030,996)
D) Net increase/decrease in cash and cash equivalents (AOP 026+032+039)	040		20,648,658	62,895,746
Cash and cash equivalents at beginning of year	041		216,893,966	237,308,624
Effects of foreign currency exchange rate fluctuations on cash and cash equivalents	042		(234,000)	(846,024)
Cash and cash equivalents at end of year (AOP 040+041+042)	043		237,308,624	299,358,346

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

CHANGES OF EQUITY for the period from 1 January 2022 to 31 December 2022 – BANK-PK form

Item	AOP mark	Note 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	
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	(1,291)	(364,484)	0	0	0	9,324	0	0	0	118,149
2. Effects of corrections of errors	02						0	0	0	0	0	0	0	0	0	0
3. Effects of changes in accounting policies	03						0	0	0	0	0	0	0	0	0	0
4. Opening balance (current period) (AOP 01 to 03)	04		474,600,000	0	0	0	(1,291)	(364,484)	0	0	0	9,324	0	0	0	118,149
5. Issue of ordinary shares	05															
6. Issue of preference shares	06															
7. Issue of other equity instruments	07															
8. Execution or expiry of other issued equity instr.	08															
9. Debt to equity swaps	09															
10. Capital reduction	10															
11. Dividends	11															
12. Purchase of treasury shares	12															
13. Sale or extinguishment of treasury shares	13															
14. Reclassification of financial instruments from equity instruments to liabilities	14															
15. Reclassification of financial instruments from liabilities to equity instruments	15															
16. Transfers between equity instr. components	16						0	9,324	0	0	0	-9,324	0	0	0	0
17. Increase or decrease in equity instruments resulting from business combinations	17															
18. Share-based payments	18															
19. Other increase or decrease in equity instruments	19															
20. Total comprehensive income for the year	20						(8,882)	0	0	0		15,512		0	0	6,630
21. Closing balance (current period) (AOP 04 to 20)	21		474,600,000	0	0	0	(10,173)	(355,160)	0	0	0	15,512	0	0	0	124,780

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2022

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 HRK '000

Item		CNB Decision	Annual Report	Difference
1. Cash, cash receivable from central banks and other demand deposits	**001**	280,646	312,905	(32,259)
1.1. Cash on hand	002	36,246	-	36,246
1.2. Cash receivables from central banks	003	210,928	-	210,928
1.3. Other demand deposits	004	33,472	-	33,472
Cash		-	280,645	(280,645)
Receivables from the Croatian National Bank		-	13,548	(13,548)
Placements with banks		-	18,712	(18,712)
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**	432,710	432,710	-
5.1. Equity instruments	018	196	-	196
5.1. Debt securities	019	432,514	-	432,514
5.2. Loans and advances	020	-	-	-
Financial assets at fair value through profit or loss		-	432,710	(432,709)
6. Financial assets at amortised cost (AOP 022+023)	**021**	1,070,388	1,006,558	63,830
6.1. Debt securities	022	-	-	-
Financial assets at amortised cost		-	34	(34)
6.2. Loans and advances	023	1,070,388	-	1,070,388
Loans and advances to customers		-	1,006,524	(1,006,524)
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**	42,464	-	42,464
Investment properties		-	35,810	(35,810)
Property, plant and equipment		-	6,654	(6,654)
Foreclosed assets		-	5,800	(5,800)
11. Intangible assets	**028**	4,994	4,994	4,994
12. Tax assets	**029**	3,827	-	(3,827)
Deferred tax assets		-	3,827	3,827
13. Other assets	**030**	6,275	-	(6,275)
Other assets		-	19,586	(19,586)
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**	1,841,304	1,828,843	12,461

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2022 (continued)

In HRK '000

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**	1,664,209	1,662,130	2,079
18.1. Deposits	044	1,661,987	-	1,661,987
18.2. Debt securities issued	045	-	-	-
18.3. Other financial liabilities	046	2,222	-	2,222
Liabilities to banks		-	3,508	(3,508)
Demand deposits		-	768,560	(768,560)
Term deposits		-	748,120	(748,120)
Borrowings		-	141,942	(141,942)
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**	28,361	28,685	(324)
22. Tax payable	**050**	292	-	292
23. Share capital repayable on demand	**051**	-	-	-
24. Other liabilities	**052**	23,663		23,663
Other liabilities		-	13,249	(13,249)
25. Liabilities of disposal groups held for sale	**053**	-	-	-
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 to 053)	**054**	1,716,525	1,704,064	12,461
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**	**(10,173)**	**(10,173)**	-
32. Retained earnings	**060**	**(355,160)**	**(339,648)**	**(15,512)**
33. Revaluation reserves	**061**	-	-	-
34. Other reserves	**062**	-	-	-
35. Treasury shares	**063**	-	-	-
36. Profit or loss attributable to owners of the parent company	**064**	**15,512**	-	**15,512**
37. Dividends for the year	**065**	-	-	-
38. Minority (non-controlling) interests	**066**	-	-	-
39. TOTAL EQUITY (AOP 055 to 066)	**067**	**124,779**	**124,779**	-
40. TOTAL CAPITAL AND RESERVES (AOP 054+067)	**068**	**1,841,304**	**1,828,843**	**12,461**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2022 (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. At the end of 2022, a deposit for advance supply of EUR was opened at the CNB for the purposes of converting HRK into EUR, 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). 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 2022

In HRK '000

Item		**CNB Decision**	**Annual Report**	**Difference**
1. Interest income	069	48,402	48,324	78
2. Interest expense	070	3,615	3,538	77
3. Expenses from share capital repayable on demand	071	-	-	-
4. Dividend income	072	-	-	-
Credit loss allowances		-	(7,520)	7,520
5. Fee and commission income	073	14,468	14,468	0
6. Fee and commission expense	074	3,317	3,317	0
Provisions and impairment			7,492	(7,492)
7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	075	(420)	-	(420)
8. Gains or losses on financial assets and liabilities held for trading, net	076	4,136		4,136
Gains less losses from financial instruments measured at fair value through other comprehensive income			(420)	420
Gains less losses from financial instruments measured at fair value through profit or loss			2	(2)
Gains less losses arising from dealing in foreign currencies			4,134	(4,134)
Gains less losses from modifications to financial assets measured at amortised cost that are not caused by derecognition			2	(2)
9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net	077	-	-	-
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	(314)	-	(314)
Gains less foreign exchange losses		-	(314)	314
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		-	4,632	(4,632)
15. Other operating income	083	12,250	22,210	(9,960)
16. Other operating expenses	084	290		290
17. TOTAL OPERATING INCOME; NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 083 - 084)	085	71,299	86,155	-14,856
18. Administrative expenses	086	49,497		49,497
19. Contributions in cash to rehabilitation committees and deposit insurance schemes	087	1,010		1,010
Staff costs			(27,979)	27,979
20. Depreciation and amortisation	088	2,857	(2,857)	0
Other operating expenses			(38,395)	38,395
21. Gains or losses on changes, net	089	2		2
22. Provisions or reversal of provisions	090	(6,509)		(6,509)
23. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss	091	7,434		7,434
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	88	-	88
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**	16,925	16,924	**-**
30. Tax expense or income relating to gains or losses on continuing operations	098	1,412	1,412	**-**
31. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 097 - 098)	**099**	15,512	15,512	**-**
32. Profit or loss after tax from discontinued operations (AOP 101 - 102)	100	-	-	-
32.1. Profit or loss before tax from discontinued operations	101	15,512	15,512	-
32.2. Tax expense or income relating to discontinued operations	102	-	-	-
33. PROFIT OR LOSS FOR THE YEAR (AOP 099 + 100; 104 + 105)	**103**	15,512	15,512	**-**
34. Attributable to minority (non-controlling) interest	104	-	-	-
35. Attributable to owners of the parent company	105	15,512	15,512	-

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement reconciliation as at 31 December 2022 (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 2022

In HRK '000

Item		CNB Decision	Annual Report	Difference
Operating activities and adjustments				
1. Profit/loss before tax	001	16,924	16,924	-
2. Impairment losses and provisions	002	567	-	567
Net credit losses		-	7,520	(7,520)
Provisions and impairment		-	(7,492)	7,492
3. Depreciation and amortisation	003	2,857	2,857	-
4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	004	(3,715)	-	(3,715)
Foreign exchange gains		-	(4,134)	4,134
5. Gains/losses on sale of tangible assets	005	(5,626)	-	(5,626)
6. Other non-cash items	006	3,789	-	3,789
Other (decrease) in cash flow		-	-	-
Interest received		-	(48,324)	48,324
Interest expense		-	3,538	(3,538)
Other non-cash items		-	(4,704)	4,704
Movements in assets and liabilities from operating activities				-
7. Deposits with CNB	007	70,123	70,123	-
8. Deposits with financial institutions and loans to financial institutions	008	-	-	-
9. Loans and advances to other customers	009	(185,705)	-	(185,705)
Decrease in loans and receivables		-	70,332	(70,332)
10. Securities and other financial instruments at fair value through other comprehensive income	010	72,314	-	72,314
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	53,793	-	53,793
Decrease/(increase) in other assets		-	(3,641)	3,641
(Decrease) in other current liabilities		-	4,315	(4,315)
Increase/decrease in operating liabilities				-
16. Deposits from financial institutions	016	(3,177)	-	(3,177)
Increase in liabilities to banks		-	(2,763)	2,763
17. Transaction accounts of other customers	017	103,028	-	103,028
18. Savings deposits of other customers	018	(485)	-	(485)
19. Term deposits of other customers	019	(104,176)	-	(104,176)
(Decrease) in deposits		-	(2,044)	2,044
20. Derivative financial liabilities and other trading liabilities	020	-	-	-
21. Other liabilities	021	10,746	-	10,746
22. Collected interest from operating activities	022	44,695	-	44,695
Interest received		-	44,695	(44,695)
23. Dividend received from operating activities	023	-	-	-
24. Interest paid from operating activities	024	(610)	-	(610)
Interest paid		-	(611)	611
25. Income tax paid	025	-	-	-
A) Net cash flows from operating activities (AOP 001 to 025)	**026**	77,710	146,591	(68,881)

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Cash flow statement reconciliation for 2022 (continued)

In HRK '000

Item		CNB Decision	Annual Report	Difference
Investing activities				
1. Proceeds from sale/payments for purchases/of tangible and intangible assets	027	17,216	-	17,216
Purchase of property, equipment and intangible assets		-	-	-
Proceeds from sale of foreclosed assets		-	*5,626*	*(5,626)*
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		-	-	-
Sale of financial assets at fair value through other comprehensive income		-	*(72,315)*	*(72,315)*
Proceeds from sale of financial assets at fair value through profit or loss		-	-	-
B) Net cash flows from investing activities (AOP 027 to 031)	**032**	17,216	(66,689)	83,905
Financing activities				
1. Net increase/decrease in borrowings from financing activities	033	(15,493)	-	(15,493)
Repayment of borrowings		-	*(15,848)*	*15,848*
Lease payments		-	*(1,159)*	*1,159*
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	(16,538)	-	(16,538)
C) Net cash flows from financing activities (AOP 033 to 038)	**039**	**(32,031)**	**(17,007)**	**(15,024)**
D) Net increase / decrease in cash and cash equivalents (AOP 026+032+039)	**040**	62,895	62,895	-
Cash and cash equivalents at beginning of year	**041**	237,308	237,308	-
Effects of foreign currency exchange rate fluctuations on cash and cash equivalents	**042**	(846)	(846)	-
Cash and cash equivalents at end of year (AOP 040+041+042)	**043**	299,357	299,357	-

Mismatches of items in the income statement disclosed in the Annual Report in relation to the structure and contents prescribed in CNB's decision mainly arise due to the different methodologies used to prepare these reports, i.e. due to differently presented input data for the calculation of cash flows by category.

For example, 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 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 2022, Croatia banka performed its services in the Republic of Croatia.

Ad.2.

In 2022, Croatia banka realised a total net income of HRK 71,590 thousand.

Ad.3.

As at 31 December 2022, Croatia banka had 150 employees based on the number of hours of work, but at the end of 2022 the actual number of employees was 162.

Ad. 4.

Income tax is based on taxable income for the year and comprises current and deferred tax. In 2022, the Bank realised a tax gain of HRK 4,970 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 2022, 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

BUSINESS NETWORK

City	Address	Telephone	Telefax
Commercial centre Čakovec	Ulica Ivana Mažuranića 2 40000 Čakovec	040 310 160 040 311 672	040 310 643
Commercial centre Osijek	Ulica Josipa Jurja Strossmayera 4 31000 Osijek	031 203 001 031 203 005	031 203 002
Commercial centre Pula	Istarska ulica 14 52100 Pula	052 451 202 052 451 304	052 451 505
Commercial centre Slavonski Brod	Trg Ivane Brlić Mažuranić 15 35000 Slavonski Brod	035 442 112	035 442 110
Commercial centre Split	Gundulićeva 26A 21000 Split	021 539 795	021 539 794
Commercial centre Vinkovci	Duga ulica b.b. 32100 Vinkovci	032 331 377 032 331 453	032 331 213
Commercial centre Virovitica	Trg kralja Zvonimira 10 33000 Virovitica	033 725 441	033 725 602
Commercial centre Vukovar	Josipa Jurja Strossmayera 5 32000 Vukovar	032 450 520	032 450 490
Commercial centre Zagreb	R.F. Mihanovića 9 10110 Zagreb Poslovni toranj Sky Office	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

BUSINESS NETWORK (CONTINUED)