

BANKA KOVANICA d.d.

Annual report for 2021.

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**BANKA KOVANICA dd
VARAŽDIN**

**MANAGEMENT REPORT
for 2021**

Management Note

In 2021, the Republic of Croatia will achieve a "V" economic recovery with an increase in real GDP of + 10.4%, after a decrease of -8.4% recorded in 2020 and a rapid return to pre-pandemic levels. This is the second largest national growth in the EU-27: for the sake of comparison, from the impact of the recession on economic production due to the 2008 international financial crisis, it did not recover until 2018.

The recovery was favored by exports of goods and services, with the primary role of tourism and private consumption. In 2022, a dynamic growth of + 4.8% is expected (source: European Commission), supported by both domestic demand and net exports, and more restrained in the first quarter due to the unfavorable epidemiological situation. Inflationary pressures will affect private consumption, but labor market conditions remain favorable. A positive investment trend is also expected, supported by demand, favorable financial conditions and the implementation of the National Recovery and Resilience Plan (NPOO), as well as the acceleration of the earthquake recovery program in the capital and Banovina region.

On the other hand, the adoption of the budget indicates the limited impact of public expenditure. In 2023, convergent real growth is expected to slow at a rate of approximately + 3.0%, the potential of which will depend on the efficient use of European funds, especially for environmental and digital transition ("NextGen" and EU structural funds will be about 30 % Of GDP in the next 5 years). On the other hand, dangerous inflationary dynamics spurred by the international rise in energy and food prices, exacerbated by the Russian-Ukrainian diplomatic and military crisis, make such predictions somewhat unstable. Bank loans, excluding interbank components and central banks, recorded lower growth of + 1.7% (+ 5.9% in 2020), with the share of non-financial corporations even negative (-1.2%); while growth of + 3.7% in the family sector still reflects the demand for housing loans driven by housing loan subsidies (APN). The quality of bank credit is improving (NPL 4.3% gross, 1.6% net), but, excluding the effect of diluting exposures to governments and central banks, the frequency of non-performing loans in the private sector remains unchanged compared to 2019 (NPL 3.0% net), with a partial deterioration in the household sector, more pronounced in the consumer credit segment.

In 2021, the Republic of Croatia will improve its sovereign rating with a rating of the so-called investment - build two primary agencies (BBB- / BBB) and a stable or positive outlook . Joining the eurozone in 2023 supports the rating by giving the country a currency with international reserve status; furthermore, it reduces transaction costs and limits exchange rate risks in the balance sheets of companies and families.

In 2021, the Croatian banking system, consisting of 23 banks, including three savings banks, recorded total assets of HRK 500.8 billion (+ 8.3%) and a total profit of HRK 5.6 billion (source: CNB), which is more than doubled compared to 2020 (+ 108.8%), although lower than in 2019 (-15.3%). Basic income remained unchanged, with a decrease in net interest rates almost equal to an increase in net commissions, so the increase in profit mainly reflects loan write-offs due to lower risk prices, with a significant average return after pandemic shock (ROA indices 1.2% and ROE 8.7%). In a relatively concentrated banking system (the first 8 banks with assets above 1% of total assets have a cumulative market share of 93%), Banka Kovanica dd ranks 18th in total assets (market share of 0.3%) and 16th in its own capital.

In a sample of 15 small banks with assets of less than 1% of total assets (average: HRK 2.3 billion), the Bank has a market share of 4.5%. In 2021, this sample of small banks generated a total profit of HRK 249.8 million (+ 87.8%), while the Bank generated a profit equal to 8.8% of the total sample, with the best return on equity

of the entire system. The pre-tax result of HRK 27.6 million (+ 83.9%) is significantly higher than the budgetary target, for a record profitability that reflects both the stability of core revenues (net interest and net commissions) and the lower cost of risk in the post- pandemic scenario. Furthermore, this result is favored by the temporary suspension of contributions to the Interbank Deposit Protection Fund (HAOD). The Bank recorded a relative growth of total assets above the system average (+ 13.4%), together with a further and significant improvement in the main risk indicators; in particular, the indicators of Net NPL, Stage-2 and Texas are even lower than the average of the domestic banking system and " best-in-class " in the sample of small banks, specifying that the measures of flexibility related to the so-called. pandemic moratorium removed from 30.06.2021. as an additional confirmation of the resilience of the niche model specialized in consumer credit (transfer of one fifth of salary and pension). In the secondary sector of enterprises, the volume of loans increases significantly after the contraction recorded in the pandemic year, the frequency of enterprises equal to 20% of total net loans at the end of the year, half of which with preferential risk factors.

The most important financial and business successes :

- restrained but selective credit growth both for the purpose of optimizing assets weighted due to credit risk and due to the diversification of asset classes, with a growing representation of legal entities;
- better return on capital of the entire system (ROE before tax: 19.2%), as a confirmation of the resilience of the Bank's niche model specializing in consumer loans;
- maintaining adequate liquidity reserves both in the short term (LCR 235%) and in the medium term (NSFR 133%), with an additional limit on reducing financing costs, minimal concentration risk and zero collateralised financing;
- total capital adequacy ratio of 17.1% (19.4% including the 2021 result), for a consistent source of funds in relation to the expected investment growth targets with preferential risk factors;
- net receivables overdue for more than 90 days in relation to net assets and other equity instruments reduced to 12.6% (Texas proxy index), as a confirmation of the validity of credit approval criteria and the effectiveness of repayment procedures;
- automation of operations for digital transformation of the Bank with priority towards back - and middle-office processes in order to reduce operating costs and risks and increase economies of scale in accordance with the banking model of the niche.

During the General Assembly, a net profit in the amount of HRK 22,072,602.55 is proposed, which arises from the audited Financial Statements concluded as at 31 December 2021. to allocate in the amount of HRK 14,977,462.52 to reserves and the amount of HRK 7,095,140.03 by paying dividends, in accordance with the Business Plan 2021-2023. for the Bank's growing capital base in convergence with the average values of the domestic banking system, too faced with new risks in the post- pandemic scenario.

The Management Board thanks all business partners, clients and shareholders for their trust and thanks the members of the Supervisory Board for their cooperation and dedicated work. We thank the employees of the Bank, who we ask for additional efforts in achieving the challenging goals set out in the Business Plan.

General information about the Bank and organizational structure

The bank has been operating continuously since 1997, when it was entered in the Register of the Commercial Court in Varaždin as the Kovanica Savings Bank. In April 2002, the Savings Bank was transformed into a bank and in 2005 received a license from the Croatian National Bank (CNB).

The Bank's registered office is in Varaždin, Petra Preradovića 29.

The share capital amounts to HRK 106,961,910 and is divided into 3,565,397 shares with an individual nominal value of HRK 30.00, paid in full. The share of the majority shareholder is 99.694% (Cassa di Risparmio della Repubblica di San Marino Spa .) The share of private domestic shareholders is 0.3018%, while the Bank's own shares are 0.0042%.

The Bank is registered to perform the following activities:

- receiving cash deposits,
- approving loans and other placements in your own name and for your own account,
- issuing means of payment in the form of electronic money,
- issuing guarantees and other guarantees,
- *factoring* ,
- financial *leasing* ,
- lending, including consumer loans, mortgages and commercial financing (including forfaiting),
- trading on its own behalf and for its own account or in its own name and on behalf of the client on money market instruments and other transferable securities, foreign exchange transactions,
- trading in financial futures and options, currency and interest rate instruments,
- performing payment transactions in the country and abroad,
- collecting, analyzing and providing information on the creditworthiness of legal entities and individuals,
- representation in the sale of insurance policies, in accordance with the law governing insurance, mediation and representation in insurance,
- Issuance and management of payment instruments, financial intermediation.

The Bank joined SWIFT and the Croatian Register of Credit Obligations (HROK).

The shares are not listed on the Stock Exchange.

Bodies of the company on 31.12.2021. are:

General Assembly

President of the Assembly

Supervisory Board

Carloalberto Giusti	President
Gianfranco A. Vento	Member (Vice-President)
Francesco Carobbi	Member (Independent)

Administration

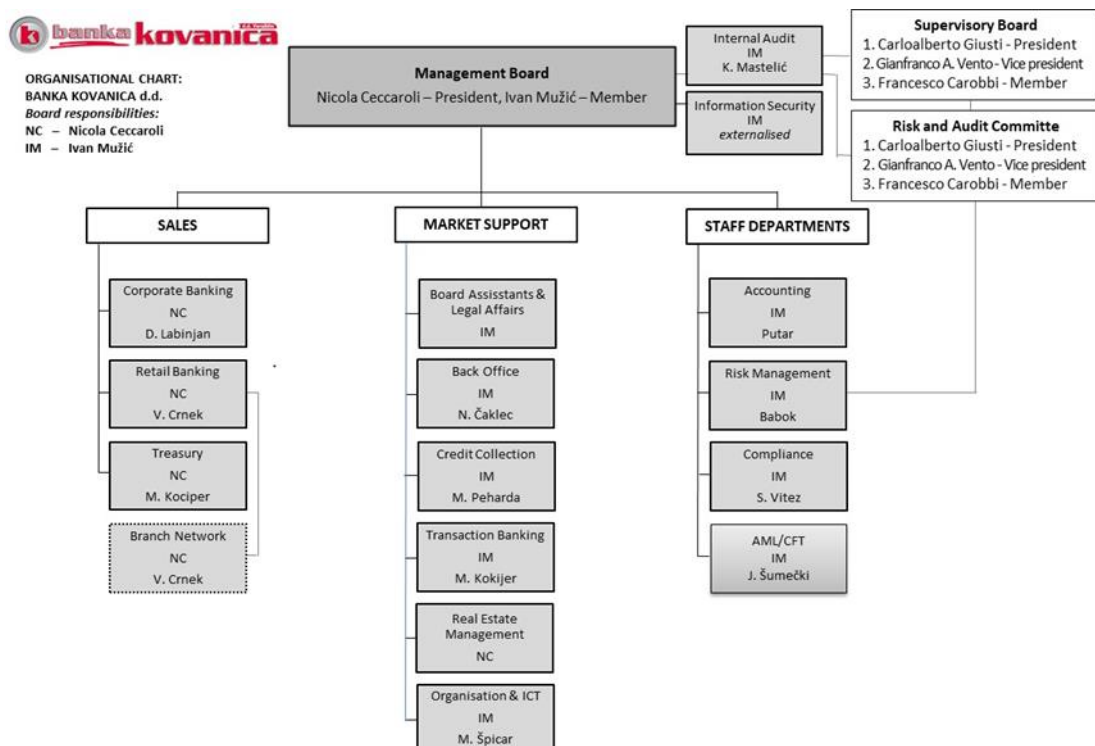
Nicola Ceccaroli	President
Ivan Mužić	Member

The Bank operates through 12 branches and 4 ATMs in the country, offering services to retail and legal clients, with a functional organization based on the requirements of Basel, the Credit Institutions Act, CNB recommendations and guidelines and the specific needs of modern banking. The Bank's Management Board remains in charge of further streamlining the branch network in the digital banking era, excluding future assumptions of consolidation between small and medium-sized banks.

The Bank's operations are managed by a Management Board composed of two members who have direct management responsibilities based on the separation of *back and front office operations*. Based on the scheme adopted in 2014, the Bank is organized into 6 Sectors and 7 Business Support Departments.

The unification of the administrative headquarters into a single headquarters of the Bank is the basis of certain organizational changes, intended primarily for more efficient operational processes and reduction of operational risk:

- merging the human resources department with the Office of Administration and Legal Affairs;
- merging the Payment Operations, Treasury and Letters of Credit Department into the new Transaction Banking Department;
- transfer of activities FINA- filing order and Back Office (Payments) from the Credit Collection Department and the Back Office to the Banking Transactions Department.



The bank belongs to a group of smaller banks in a highly concentrated banking market, with a general license to provide all lending, collection and payment services in foreign currencies and receiving deposits, payment services and other financial services.

In July 2007, the Bank was taken over by the Cassa di Risparmio della Repubblica di San Marino Spa, the oldest Bank in the Republic of San Marino. During its existence, the Bank was recapitalized several times by the majority owner, of which the last capital increase in the amount of HRK 3.0 million (with the simultaneous payment of dividends and capital reserves in the same amount) by the General Assembly decision of 28.04.2017. year, entered in the Register of Companies in Varaždin, in such a way that the share capital now totals 106,961,910 kuna.

Human resources

The Human Resources Department was established in 2009 and in 2014, it was merged with the Office of Administration and Legal Affairs. The Office is, among other things, responsible for new recruitment and care for the training and professional development of employees.

During 2020, the Bank hired 13 new employees, while 9 employees terminated their employment, so on 31.12.2021. records the number of 106 employees. As a rule, these are permanent and full-time staff: 7 employees are employed on a part-time basis, mainly as a replacement for employees on maternity leave or due to a temporary increase in the volume of work in certain offices. Excluding the listed employees on replacements, the number of actual employees of the Bank as at 31.12.2021. (FTE) increased by 6 employees (+ 6.5%), compared to the increase in balance sheet assets in the amount of more than double (+ 13.0%), which results in the ratio of total assets / FTE increased by HRK 15.6 million (+ 6.2%). Management will continue to work to further improve this performance index to bring it closer to the peer benchmark targets. group), through back-office and middle-office staff optimization and process automation.

Of the total number of employees, 75% of employees are women, the average age of employees is 41 years, and 40% of employees are less than 40 years old.

67% of employees have a bachelor's or higher degree, 27% have a bachelor's degree, while 40% have a university degree.

To train employees in 2021, the Bank spent HRK 22,000 on attending seminars and training courses, acquiring new knowledge, improving the quality of work and adapting to legal changes, including periodic training within the Bank by the responsible persons of the Sector.

Movement of the Bank 's assets, financial results and condition of the Bank

The Bank's financial statements were audited by an independent auditor - BDO Croatia doo. The financial statements consist of the balance sheet, profit and loss account, the final account of the statement of share capital for the accounting period ended on 31.12.2021. and Notes to the financial statements. After the audit of the financial statements, the independent auditor confirmed the truthfulness and correctness of the balance sheet and financial statements and financial results of the Bank in accordance with the applicable accounting regulations for Croatian banks. In particular, the independent auditor issued his opinion without reservation for the sixth year in a row.

Total assets as of 31.12.2021. amounted to HRK 1,544.9 million , which is an annual increase of + 13.0% compared to the previous year 2020: the reason for such an increase is primarily an increase in customer lending.

Indeed, net loans to customers amounted to HRK 1,188.2 million, which is an annual increase of + 16.9% compared to 2020, of which loans to households increased by + 8.5% and reached the amount of HRK 953.0 million , while loans to companies grew by + 69.8% per year and reached the amount of HRK 235.2 million, encouraged by loans to entrepreneurs with state guarantees within the program of financing fixed and working capital from European funds (Hamag-Bicro and HBOR) in response to the corona virus pandemic (COVID-19)

Cash increased by + 31.0% per year compared to 2020 and amounted to HRK 125.5 million , compared to a smaller decrease in available-for-sale securities representing investments in short- and medium-term Eurozone government bonds; required reserves amount to HRK 68.5 million, which is an annual increase of + 12.9%. Held-to-maturity financial assets decreased due to a significant reduction in short-term financing operations through discount bills of exchange since the beginning of the pandemic.

Client deposits amount to HRK 1,314.3 million and almost entirely consist of retail deposits, which is an annual increase of + 13.6% taking into account the continuous reduction of the average interest rate on time deposits. Regulatory capital as of 31.12.2021. It amounts to HRK 163.2 million with a capital adequacy ratio of 17.1% (excluding operating profit), above the minimum prescribed amount (12%).

Interest income and similar income amounted to HRK 77.6 million, an annual increase of + 5.3%, while interest expenses and similar expenses amounted to HRK 13.4 million, an annual decrease of -6.9%, of which net interest income in the amount of HRK 64.1 million, which is an annual increase in almost double-digit amount of + 8.1%.

Income from fees and commissions increased to HRK 10.9 million, with a significant annual increase of + 27.2%, primarily due to income from insurance representation activities, while the costs of commissions and fees amount to HRK 3.5 million, which is an annual increase of + 12.9%, for net income from fees and commissions have increased by more than a third or by 35.4% compared to 2020. Net other income remained unchanged at HRK 4.5 million.

General administrative expenses and depreciation amount to HRK 37.6 million, in an annual increase of + 4.4%, certainly less than inflationary trends, and therefore the Bank records a Cost / Income indicator of 49.1% in further improvement.

The cost of impairments and provisions for loan losses amounts to HRK 10.9 million, which is a significant decrease of -39.1% per year, due to the update of IFRS 9 models and the positive trend of non-performing exposures.

The bank generated a net profit before tax of HRK 27.6 million and a net profit after tax of HRK 22.1 million, which is an annual increase of almost double the amount of + 96.9%, significantly more than the budget for 2021, for a record profitability (ROE before tax: 19.2%) which reflects how the stability of the so-called basic income (net interest income and net income from fees and commissions) and lower cost of risk in the post-pandemic scenario. This result also benefits from the temporary suspension of fees paid in the banking deposit insurance system (HAOD).

Basic products and services of the Bank

1. Credit business

In the area of retail lending, the Bank offers several types of non-purpose loans. The following types of non-purpose cash loans are available to the Bank's clients:

- non-purpose short-term cash loan with currency clause in euros for the Bank's clients with a repayment period of up to 12 months;
- non-purpose cash loan in HRK or with a currency clause in euros for a repayment period of up to 144 months;
- non-purpose cash loan with currency clause in euros secured by real estate;
- non-purpose loan with collateral (time deposit);
- non-purpose cash loan in HRK or with a currency clause in euros for refinancing, with a repayment period of up to 144 months;
- non-purpose cash loan in HRK or with a currency clause in euros for a repayment period of 120 months, with a monthly repayment not exceeding 20% of the debtor's income or pension and insurance policy in case of death, disability and loss of employment; .
- non-purpose cash loan in HRK or with a currency clause in euros for refinancing for a repayment period of 120 months, with a monthly refund not exceeding 20% of the debtor's income or pension and insurance policy in case of death , disability and loss of employment

In its offer, the Bank adjusts the loan conditions to the needs of the market and competition.

The bank also offers special-purpose loans, including housing loans with a repayment period of up to 30 years.

In the segment of operations related to credit operations for business entities, the Bank offers various types of loans for both working and permanent capital, unsecured or secured loans. Furthermore, the Bank participates in the main state financial programs in cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and the Croatian Agency for Small Business, Innovation and Investment (Hamag-Bicro). In a special way:

- ESIF A, maximum guarantee amount up to 80% or EUR 4 million (minimum EUR 150 thousand), maximum duration 10 years for investments;
- ESIF B, maximum guarantee amount up to 80% or EUR 1 million (minimum EUR 150 thousand), maximum duration 5 years for working capital;

- ESIF portfolio guarantee for working capital, maximum guarantee amount up to 80% or EUR 150 thousand, maximum duration 10 years ;
- national program PLUS measure A, maximum guarantee amount up to 50% or EUR 150 thousand, maximum duration 5 years for investments;
- national program PLUS measure B, maximum guarantee amount up to 50% or EUR 150 thousand, maximum duration 5 years for working capital;
- COVID-19 program for tourism, maximum guarantee amount up to 100% or EUR 800 thousand, maximum duration 5 years for working capital;
- rural development program, maximum guarantee amount up to 70% or EUR 1.3 million, maximum duration of 10 years for investments in agriculture;
- program for exporters (at least 10% of turnover - exports), maximum guarantee amount up to 80% or EUR 150 thousand, maximum duration of 12 years for working capital;
- program for exporters COVID-19 (at least 10% of turnover - export), maximum guarantee amount up to 90% or 25% of turnover (2019) or 200% of salary costs (2019), maximum duration 5 years (plus 1 year grace period)) for working capital.

2. Deposit operations

In the area of deposit operations, the Bank offers a wide range of savings products with fixed and variable interest rates, a/vista and term savings, with an individual approach to each client when negotiating terms.

The bank offers:

- additional term savings in kuna, in kuna with a currency clause or in foreign currency for periods of 3 to 60 months;
- profit term savings in kuna, in kuna with a currency clause and in foreign currency for periods of 3 to 60 months;
- annuity term savings in kuna, in kuna with a currency clause and in foreign currency for periods of 3 to 60 months;
- children's savings "Klinko" in kunas and euros;
- social insurance for voluntary contribution to the third capital pension pillar in cooperation with Croatia osiguranje Voluntary Pension Fund Management Company doo (Croatia Osiguranje dd).

Since October 2015, the Bank has been offering time deposits to individuals in the Federal Republic of Germany in the "EU passport" regime in cooperation with SAVEDO GmbH . In 2020, the Bank completed the migration to a more advanced B2C platform called ZINSPILLOT, managed by Deposit Solutions GmbH in cooperation with the German Bank Max Heinr . Sutor oHG (MHSBDEHB). In 2021, Deposit Solutions GmbH is merged by the merger with Raisin GmbH (Raisin DS GmbH), to become the leading B2B and B2C open banking platform for savings and investment products doing business with 400 banking and financial companies in 30 countries. Pan-European deposit manager with a banking partner takes care of the entire *customer life cycle* in German (acquisition of clients online / offline, conclusion of deposit agreements, transfer of funds, customer service). Cross-border collection of bank savings intends to achieve three key results: reduction of financing costs; customer base diversification; consolidation of maturities of liabilities. Such cross-border savings are supervised by the Croatian National Bank upon notification to the German supervisory authority (BaFin).

3. Accounts-financial transactions

The Bank offers solutions that enable efficient, fast and secure transactions in financial management.

3.1. Current accounts

By opening a current account, we offer a wide range of products and services, tailored to the individual needs of each client:

- *Account ko-net* current account - current account package in three different models, depending on the range of additional services;
- allowed overdraft on the account;
- checks;
- standing order;
- Maestro debit card;
- Ko-net internet banking;
- mKovanica mobile banking;
- POS payments and cash withdrawals at ATMs in installments;
- paying in installments;
- SMS services.

Despite additional delays due to priorities related to the business continuity plan in line with national measures to extend the pandemic state of emergency, in 2021 the Bank continued the internal development of business process automation projects, with the triple goal of reducing procedural costs (paperless office), speed up production time and prevent operational risks: in particular the update of the electronic corporate credit procedure (CORPAS) and the information application for commercial productivity in the small and medium-sized enterprise sector (CRM). Furthermore, in cooperation with the IT supplier , a receivables management platform (e-payment) has been integrated with so-called multi - channel soft-collection procedures for consumer loans and corporate loans, also for CRM purposes to optimize commercial relationships. Projects related to electronic invoicing (e-invoicing) and document management and digital signature (DDM), which are preparation for the digital transformation of the Bank, will be completed in 2022.

Also, completion dedicated third-party API, in accordance with the Payment Services Directive 2 (PSD2), due to the start of a complex project of switching to the euro, it has been postponed to 2023. Finally, in 2021, the Bank negotiated with primary third parties specializing in IT security to outsource the Advanced Security Operations Center (SOC), continuously active in detecting, analyzing and responding to cyber incidents, which it will implement in 2022 to address cyber risks. reduced to a minimum.

3.2. Giro account citizens

Giro account holders can use the services of *co-net* Internet banking, which allows them the most convenient way to manage funds on the account.

4. Card business

The bank offers the following cards:

- *Maestro* Debit Card ®
- MasterCard charge ®;
- MasterCard revolving;
- Business Mastercard .

5. ATMs

The Maestro debit card enables cash withdrawals at ATMs and payments via POS devices in the Republic of Croatia, as well as cash withdrawals at ATMs (Cirrus) and POS payments (Maestro) abroad. At ATMs of the Bank and MBNET network, cash can be withdrawn without paying a fee (predefined number of monthly free transactions). The Bank encourages the possibility of paying in installments via POS devices and withdrawing cash from ATM devices with periodic debiting of the current account.

The main risks and uncertainties to which the Bank is exposed

The Bank's business activities are exposed to various types of risks that need to be systematically managed. Risk management includes the identification, analysis, assessment, management and monitoring of risks, which are prescribed by policies and procedures that determine the levels of risk that are acceptable to the Bank.

The most significant types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk (including interest rate risk, currency and price risk) and operational risk.

For a more detailed analytical report on financial risks, reference is made in full to notes 30) and 31) of the attached audited annual financial report as at 31 December 2021.

Operational risk

Operational risk is the risk of loss due to inadequate internal processes, human factor or external events, including the risk of non-compliance. Operational risk applies to all banking activities, processes and products. The capital requirement for operational risk is calculated by a simple approach (BIA = Basic Indicator Approach).

The Bank has adopted the Operational Risk Management Policy and guidelines for the classification of operational risk using the risk mapping method. A threshold for significant risk has been defined, and in the event of such an event, a detailed analysis of the causes and consequences of the event is provided. All for the purpose of improving control procedures and preventing the recurrence of a similar event or mitigating its consequences.

Significant ongoing events and future activities

Since the beginning of 2014, the new Management Board has undertaken to restructure and restart the Bank with a return on operating profit in 2014 and net profit in 2015, with all credit quality indicators in significant progress and approaching average values of the domestic banking system, despite loss of loan portfolio inherited at the beginning of the term. In 2021, the Bank recorded a record return on equity at the top of the entire system, with a limited incidence of loans in phase 2 (1.4% of total net loans). In particular, all credit quality indicators recorded further improvements with values even higher than the system average (excluding administrations and central banks), which confirms the resilience of the niche model of the Bank specializing in consumer credit. Since the outbreak of the global health crisis that materialized in early 2020, the Bank has been implementing a business continuity plan to ensure the safety of employees and key business processes, in accordance with the instructions of the competent authorities. The Bank is consolidating its position in the retail sector to become the bank of choice for families and SMEs, basing its competitive advantage on "listening" as a real differentiating factor. The priority is on the development of income capacity and internal capital creation based on a strengthened budget. Despite the continuous improvement of the Bank's risk and profit profile, the annual prudential audit and evaluation process (SREP 2021) increases the additional capital requirement in the unfavorable scenario in accordance with Art. 92.1.c) of Regulation (EU) no. 575/2013 at 4.0%, for Total capital ratio of 16.0% from 01.03.2022. including a capital reserve against systemic risk of 1.5%. Furthermore, the Croatian National Bank announced the launch of a public consultation to increase the countercyclical capital reserve, given the growing risks after the pandemic, from 0.0% to 0.5% from 31.03.2023. years. The Bank invests in the continuous improvement of the credit process in accordance with the expectations of supervisors formulated through supervisory measures and in accordance with best banking practice, in accordance with the principle of proportionality applicable to small and complex banks.

The new Business Plan 2022 - 2024, in maintaining diligent cost discipline and high return on equity, despite the constant reduction of margins, confirms sustainable but selective credit growth due to optimization of credit risk weighted assets and diversification of asset classes with growing frequency of business with legal entities (> 33% of total net loans at the end of the plan). In particular, the advantage of lending to companies with state guarantees under the program of financing long-term and working capital from European funds (Hamag-Bicro and HBOR). While the new production of consumer loans will continue to be focused on the transfer of one-fifth of salary and pension in accordance with the amended Art. 123 of Regulation (EU) no. 575/2023 or with a mortgage guarantee. Finally, it envisages a dividend distribution policy equal to 50% of profits, without prejudice to the dividend for 2021 unchanged in the initial amount due to supervisory reasons and limiting the risk of implementing the plan. In line with the Parent Company's guidelines, this plan envisages restrained income guidance in a context characterized by persistently low interest rates and affected by significant and growing regulatory and competitive pressures, in the pre-tax ROE of 10% +. As it is known, the Bank's Business Plan is primarily a plan of margins, and secondarily of volume: growth goals are, in fact, necessarily conditioned by compliance with capital requirements, and credit dynamics intends to maintain reserves (CRR / CRD IV) and additional capital requirements.). This plan includes ambitious targets, but implementation risk appears to be in line with the value-creating capacity demonstrated by management since 2014, as well as the resilience of the

business model in the post- pandemic scenario. The bank is monitoring the Russian-Ukrainian war and the diplomatic crisis, which culminated on February 24, 2022. with the Russian invasion of Ukraine and the unprecedented humanitarian crisis in Europe since the end of World War II. In particular, the Bank has no direct exposure to Russian, Ukrainian and Belarusian institutions, companies and individuals; however, the indirect risks again associated with the war scenario, including supply chain criticalities and pre-existing inflationary pressures due to the military conflict, are currently unpredictable. The main risks to which the Bank continues to be exposed are:

- growing competitive dynamics in the context of banking and non-banking (Fintech) consolidation, technological innovation and changes in customer preferences, exacerbated by the persistence of extremely low interest rates;
- Continuous production of national and international laws and regulations, with high and growing compliance fees and high strategic, operational and reputational risks, especially at the expense of the so-called less significant institution ;
- High non-compliance by individuals of the Contracting Parties, with inefficiencies and delays in civil and bankruptcy proceedings, faced by growing economic and social macro-imbalances in the war scenario damaging the recovery after the pandemic.

The Supervisory Board, in light of the corporate restructuring and resumption of operations initiated by the Management Board in 2014, which ranks the Bank at the top of the sample of small Croatian banks in terms of capital profitability and credit quality, given the significant reputational capital achieved in relation to supervisory body and image of clients, adopted a decision to extend the three-year term of office, which expires on 31.03.2022. Dr. Nicoli Ceccaroli as President and Ivan Mužić as a member of the Management Board.

Statement of the Management Board

Responsible management of the Bank is the basis of the overall identity of the Bank. In addition, it is considered as the most important condition for creating long-term values for all shareholders, clients and employees. The Bank does not have its own corporate governance code but refers to the code of the Croatian Banking Association.

The Bank's Management Board declares that the Bank has established an organizational structure that is suitable for operating in accordance with and in compliance with applicable regulations in the Republic of Croatia and in accordance with the needs of modern banking activity. The Management Board continues to commit to strengthening the principles of corporate culture in order to foster an organizational environment marked by meritocracy and results-oriented.

The cooperation between the Management Board and the Supervisory Board takes place through transparent communication and at regular meetings at which the Management Board submits all necessary reports on the situation and business flow of the Bank, while the Supervisory Board provides the necessary support.

Corporate governance

The Bank's shareholders exercise their rights at the General Assembly, with shareholders registered with the Central Depository Agency having the right to participate.

Each share gives the right to one vote in the General Assembly, the right to dividend payment and other rights determined by law and the Bank's Articles of Association.

General Assembly of the Bank

The General Assembly to be convened at least once a year, by publishing an invitation to all shareholders in the Official Gazette, or by an invitation sent by registered mail to each individual shareholder. The General Assembly, except in accordance with the Articles of Association, is convened in the first eight months of the business year, convened by the Management Board, ie the Supervisory Board whenever the interests of the Bank so require.

The Ordinary General Assembly is held, as a rule, in the first six months of the business year, and is convened by the Management Board after the Supervisory Board adopts the annual financial statements and reports on the Bank's operations. The Ordinary General Assembly takes note of both the annual financial reports and the annual report of the Management Board.

Following the analysis of the submitted reports, the General Assembly makes decisions regarding the adoption of the work of the members of the Supervisory Board and the Management Board.

The General Assembly decides on matters explicitly determined by law and the Bank's Articles of Association, in particular on the election and dismissal of members of the Supervisory Board, the appointment of an audit company, increase and decrease of share capital and other status changes.

The General Assembly decides according to the principle of a simple majority, unless otherwise determined by law or the Bank's Articles of Association.

Supervisory Board

For the benefit of the Bank, its successful operation and development, the cooperation between the Supervisory Board and the Management Board is continuous and efficient. In this sense, the Bank's Management Board makes strategic decisions with the consent of the Supervisory Board. In accordance with the provisions of the Act, the Articles of Association and the Rules of Procedure of the Supervisory Board, decisions were made that can be adopted only with the consent of the Supervisory Board, such as: change of organizational structure, approval of large exposures, , joining interest companies, determining the annual plan and budget.

An important element of effective cooperation between the two bodies is constant communication, both through comprehensive and detailed reports and through informal communication.

On 31.12.2020. The Supervisory Board consists of three members, one of whom is the President and one Deputy President. Members of the Supervisory Board are elected by the General Assembly. According to the positive regulations, one member of the Supervisory Board must be independent.

The Supervisory Board supervises the Bank's operations, appoints and dismisses members of the Bank's Management Board, directs business policy and actively contributes to its implementation. Members of the Supervisory Board receive remuneration for their work in accordance with the decision of the General Assembly of the Bank.

Prevention of conflicts of interest in the work of the Bank's Supervisory Board

All members of the Supervisory Board are obliged to protect the interests of the Bank in their work: in order to avoid conflicts of interest, the rules applicable to members of the Management Board are applied in the work of the Supervisory Board.

Board of the Bank's Supervisory Board

The Supervisory Board has internally established a Risk and Audit Committee for the purpose of detailed supervision of the Bank's activities. The Risk and Audit Committee, whose duties are prescribed by the Law on Audit and the Law on Credit Institutions, considers issues in accordance with the positive regulations, in particular issues related to financial statements, internal audit processes and efficiency and internal control systems, management risks, overseeing the audit of financial statements and the work of independent auditors.

Management of the Bank

The Bank's Management Board consists of two members, one of whom is the President who manages the work of the Management Board, coordinates all business functions and submits reports to the Supervisory Board and the General Assembly on behalf of the Management Board.

The Bank's Management Board manages the Bank's affairs at its own risk and represents the Bank in a way that the President of the Management Board represents the Bank independently and individually, while another member of the Management Board represents the Bank jointly with the President of the Management Board. General Assembly and the Rules of Procedure of the Management Board.

In conducting business, the Bank's Management Board ensures that the Bank operates in accordance with all positive regulations and rules of the profession, especially in terms of monitoring all risks to which it is exposed, monitoring and achieving an adequate level of capital in relation to required capital requirements. The Management Board guarantees the proper preparation of financial statements in accordance with the accounting regulations and standards of Croatian law and the rules of the Croatian National Bank.

Prevention of conflicts of interest in the work of the Bank's Management Board

Respecting the positive regulations and internal rules, the Bank's Management Board ensures that the issue of conflicts of interest is regulated in a transparent and functional manner. In this sense, the members of the Management Board respect the positive regulations and internal acts which regulate their relationship with the Bank at all levels.

In conducting the Bank's business, members of the Management Board may not make and implement decisions that are contrary to or in conflict with the interests of the Bank, including the use of confidential information for personal gain.

The Bank's Management Board is supported by the following committees: the Assets and Liabilities Committee, the Credit Committee and the Assets Quality Assurance Committee.

Internal control system

In order to protect the Bank's assets and overall operations, a system of internal controls has been established in accordance with applicable regulations. The system of internal controls needs to be further improved in order to ensure maximum business efficiency, reliability of financial reporting and permanent compliance with laws and regulations and good business practices, primarily in order to manage credit and operational risk in a market characterized by high claims and reduced efficiency. judiciary, all with the aim of reducing litigation and the length of proceedings. In addition to the members of the Management Board and the Supervisory Board, all organizational units of the Bank participate directly or indirectly in the implementation of these controls.

Transparent and timely reporting

The Bank pays special attention to timely and complete communication with the Croatian National Bank, communication through periodic reports and the submission of other relevant documentation and data.

Signed on behalf of the Management Board:

Nicola Ceccaroli

Ivan Mužić

Chairman of the Board

Member of the Management Board

Banka Kovanica dd,

P. Preradovića 29

Varaždin, 29.03.2022.

Responsibility for financial statements

Pursuant to the Croatian Accounting Act (OG 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20), the Management Board is obliged to ensure that the financial statements for each financial year are prepared in accordance with the applicable accounting regulations. to banks in Croatia, so as to give a true and objective picture of the financial condition and results of operations of the Bank for that period.

Management reasonably expects the Bank to have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to accept the principle of business continuity in the preparation of financial statements.

In preparing the financial statements, the Management Board is responsible for:

- to select and then consistently apply appropriate accounting policies;
- that judgments and estimates be reasonable and prudent;
- that applicable accounting standards are applied and any material departures are disclosed and explained in the financial statements; and
- that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

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

The Management Board is also responsible for the preparation and content of management reports, in accordance with the requirements of the Croatian Accounting Act. The management report was approved by the Management Board 29.03.2022. year and signed accordingly.

Signed on behalf of the Management Bord:

Nicola Ceccaroli

Ivan Mužić

President of the Management Bord

Member of the Management Bord

Banka Kovanica dd,

P. Preradovića 29

Varaždin

29.03.2022.godine

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka kovanica dd, Varaždin

Audit report on annual financial statements

Opinion

We have audited the annual financial statements of Banka Kovanica dd ("the Bank"), which include the statements of financial position of the Bank as at 31 December 2021, the income statement and the comprehensive income statement, the cash flow statement and the statement of changes. In the capital and reserves of the Bank for the then ended year and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, its financial performance and its cash flows for the year then ended in accordance with legal accounting requirements for banks in the Republic of Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under these standards are described in detail in our independent auditor's report in the section on 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) and 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 audit opinion.

Key audit issues

The key audit issues are those that, in our professional judgment, were of the utmost importance for our audit of the separate and consolidated annual financial statements and include the identified significant risks of material misstatement due to error or fraud with the greatest impact on our audit strategy. Available resources and the time spent by the audit team engaged. We have addressed these issues in the context of our audit of the annual financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion on these issues.

We have determined that the issue below is a key audit issue to be disclosed in our Independent Auditor's Report.

The key audit questions (continued)

Reduction values credit and advances clients	
<p>On day 31. December 2021 years gross loans and advances clients in financial reports carried out are 1,345 million kuna, belonging reservations for reduction HRK 157 million, and impairment loss recognized in the income statement HRK 10.6 million (31 December 2020: gross loans and advances to customers: HRK 1,189 million). Kuna, reservations for reduction values: 172 million kuna, loss from reductions values recognized in account get and loss: 17.7 million).</p>	
Crucial audit Question	How we are addressed crucial audit Question
<p>Impairment is the best assessment Administration risk from non-compliance liabilities and expected credit losses within portfolio of loans and advances on reporting Date. Focused we are se on this territory with given that the amounts reported are significant, as well as due to the nature judgment and assumptions which is Administration morality to bring.</p> <p>International Financial Reporting Standards ("IFRS") require management to make judgments about the future, and various items in the financial statements are subject to estimation uncertainty. Estimates required for reduction values loans and advances to customers representsignificant estimates.</p> <p>The main sources of uncertainty in estimates related to impairment of loans and advances to customers are loan identification which are deteriorating, the assessment of a significant increase credit risk, predictions future cash flows, estimate of inflows from realization of collateral and determination of expected credit loss for loans and advances to customers who are inherently uncertain.</p> <p>Impairment is measured either as a 12-monthly expected credit loss or as lifelong expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.</p>	<p>Audit procedures</p> <p>Our auditing procedure bound for this territory, between other, included are:</p> <ul style="list-style-type: none"> • review of the Bank's methodology for calculating expected credit loss and estimation compliance with the relevant requirements of the International Financial Reporting Standard 9: Financially instruments ("IFRS 9"), • understanding the process of determining impairment of loans and advances, IT applications used, assumptions for data used in the model of expected credit losses, • evaluation of design, implementation and operational efficiency control in management creditrisk and business lending processes and testing of key controls related to the approval, recording and monitoring of loans and advances, • testing the design, implementation and operational effectiveness of key controls in the areas of customer rating, as well as control related to event identification impairment, the adequacy of the classification between income and non-income loans and advances and their segmentation in homogeneous groups, calculation days of delay, estimation of collateral value and calculation of provisions for impairment ,

Crucial audit Question	How we are addressed crucial audit Question
<p>For individually significant clients that is exposures to legal entities that individually exceed HRK 0.2 million and for which there was a default (non-income exposures), the assessment of impairment is based on the knowledge of each debtor , and often on estimate fair values associated collateral. The corresponding provision for impairment is determined on individual basics foundation present the value of discounted future cash flows .</p> <p>Reduction values incoming exposures to households and legal entities, non- income exposures to households, and non-income exposures to legal entities individually less than HRK 0.2 million determinese by applying model (together “Together reduction values ”).</p> <p>Historical experience, identification of exposures with significant deterioration credit qualities, information relating to the future and management estimates are included in the assumptions model. Bank continuously adjusts the parameters of the model which also requires our increased attention during the audit.</p> <p>Linked publications in belonging to annual financial reports</p> <p>For additional information see note 2.4. (Critical accounting estimates and judgments) 3 (Significant accounting policies), 8 (Impairment of credit losses - net), 16 (Loans and advances to customers) and notes 31.1.5. (Loans and advances clients) and 31.1. (Credit risk).</p>	<ul style="list-style-type: none"> • check, based on the sample, whether the bottom is consistent apply definition non-compliance obligation and verification of the correctness of the allocation in individual phase credit risk in in line with relevant policies, • an assessment of the overall model for calculating expected credit losses, including the calculation main risk parameters and macroeconomic factors (probability of non - compliance obligation (PD), loss in case non-compliance aobligation (LGD) and exposure code default (EAD), • we tested the adequacy of individual impairments, based on a sample of individual loans and borrowings, with a focus on exposures with potentially the biggest impact on annual financial statements because of their size and risk and smaller exposures that we assessed based on our internal assessment as high risky, • done we are evidence testing over selected sample how we would rated correctness classifications credit and advances, • in certain cases used we are ownjudgment how we would determined parameters for calculation of impairment losses on loans and advances and their own calculations compared with impairment calculated by Bank. • critical review of the impact of the COVID-19 pandemic on the calculation of expected credit losses and assessment of the application of the adjusted regulatory framework in the conditions of the COVID-19 pandemic, • gradeing accuracy and integrity publication in financial reports.

Other information in the Annual Report

Management is responsible for other information. Other information is an integral part of the Bank’s Annual Report, but does 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, unless explicitly stated in our report, and we do not express any form of conclusion with the expression of assurance about them.

In relation to our audit of the annual financial statements, it is our responsibility to read other information and, in doing so, consider whether other information is materially inconsistent with the annual financial statements or our audit findings or otherwise appears to be materially misstated. If, based on the work we have done, we conclude that there is a material misstatement of this other information, we are required to report that fact. In that sense, we have nothing to report.

Other information in the Annual Report (continued)

The Management Board is responsible for compiling the Management Board Report for the Bank as an integral part of the Bank's Annual Report. Regarding the Management Board's Report to the Bank, we also carried out the procedures required by the Croatian Accounting Act (the "Accounting Act"). These procedures include considering whether the Management Board's Report to the Bank has been prepared in accordance with Articles 21 of the Accounting Act.

Based on the procedures required as part of our audit of the annual financial statements and the above procedures, in our opinion the information contained in the Management Board's Report for the Bank for which the financial statements have been prepared is consistent, in all material respects, with the Bank's annual financial statements. On pages 25 to 96 on which we have expressed an opinion as set out in the Opinion section above.

Furthermore, taking into account the knowledge and understanding of the Bank and the environment in which they operate, which we acquired during our audit, it is our duty to report whether we have identified material misstatements in the Annual Report. In that sense, we have nothing to report.

Responsibilities of the Bank's Management Board and those in charge of management for the annual financial statements

The Bank's management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS and for those internal controls that the Management Board deems 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 Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, if applicable, issues related to indefinite operations and using an accrual-based accounting basis, unless the Bank's management intends to do so. Liquidate the Bank or discontinue 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.

Auditors responsibilities for audit annual financial reports

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 it is not a guarantee that an audit performed in accordance with MrevS will always detect 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 these annual financial statements.

As an integral part of auditing in accordance with MrevS, we make professional judgments and maintain professional skepticism during the audit. We also:

- we recognize and we estimate risks significant wrong display annual financial report - due to fraud or error, we design and perform audit procedures in response to these risks and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting significant misrepresentation due to fraud is greater than the risk of error, as fraud may involve collusion, counterfeiting, deliberately discharge, wrong showing or bypass internal control.
- we acquire understanding internal control relevant for audit how we would designed audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on efficiency internal control of the Bank.

Auditors responsibilities for audit annual financial reports (continued)

- we assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Management Board.
- We conclude on the appropriateness of the accounting basis used based on the indefinite nature of operations used by the Bank's Management 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. Unlimited business. If we conclude that there is significant uncertainty, we are required to draw attention 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 for an indefinite period of time.
- we evaluate the overall presentation, structure and content of the annual financial statements, including disclosures, as well as 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 provide a statement to those charged with governance that we have complied with the relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other matters that may reasonably be considered to affect our independence, as well as, where applicable, on related protections.

Among the issues that are communicated to those in charge of management, we identify those issues that are of the utmost importance in the audit of the annual financial statements of the current period and are therefore key audit issues. We describe these matters in our Independent Auditor's Report unless the law or regulation prevents the issue from being made public or when we decide, in extremely rare circumstances, that the matter should not be disclosed in our Independent Auditor's Report because the negative consequences of communication public interest in such communication.

Report on other legal requirements

At the date of this independent auditor's report, we are continuously engaged to perform the statutory audit of the Bank's annual financial statements from 2020, for a total of 2 years.

In the audit of the Bank's annual financial statements for 2021, we determined the significance for the annual financial statements of HRK 3.3 million, which represents approximately 2% of the Bank's net assets for 2021.

We chose net assets as a measure of significance because we believe that this is the most appropriate measure against which users most often assess the success of the Bank's operations, and it is also a generally accepted measure.

Our audit opinion is consistent with the supplementary report to the Bank's Audit Committee drawn up in accordance with the provisions of Article 11 of Regulation (EU) No 1095/2010. 537/2014.

During the period between the starting date of the Bank's audited annual financial statements for 2021 and the date of this Report, we did not provide prohibited non-audit services to the Bank and did not provide services for designing and implementing internal control or risk management procedures related to preparation and / or control of financial information or design and implementation of technological systems for financial information, and we have maintained our independence from the Bank in performing the audit.

Based on the Decision of the Croatian National Bank on the structure and content of the annual financial statements of banks (OG 42/18 and 122/20), the Bank's Management Board prepared the forms shown on pages 97 up to 106 ("Forms"). The financial information set out in the Forms is consistent with the information set out in the annual financial statements set out on pages 25 to 96 on which we have expressed an opinion as set out in the Opinion section above.

Based on the obligation arising from the Credit Institutions Act (OG 159/13, 19/15, 102/15, 15/18, 70/19, 47/20, 146/20), the Bank presented the requested information on page 107, which contains all information required by Article 164 (1). The information presented is derived from the financial statements of the Bank set out on pages 25 to 96 on which we have expressed an opinion as set out in the Opinion section above.

Ivan Čajko, certified auditor, is a partner engaged in the audit of the Bank's annual financial statements for 2021, which results in this independent auditor's report.

In Zagreb, March 29, 2022

BDO Croatia doo
Radnička cesta 180
10000 Zagreb

Ivan Čajko, certified auditor and
member of the Management Board

Banka Kovanica dd
Statement of comprehensive income
for the year ended 31 December 20 21 . years

	Notes	2021 HRK'000	2020 HRK'000
Interest income		77.575	73.754
Interest expenses		(13.436)	(14.386)
Net interest income	4	64.139	59.368
Fee and commission income		10.909	8.578
Fee and commission expenses		(3.537)	(3.134)
Net fee and commission income	5	7.372	5.444
Exchange rate differences – net	6	1.923	1.093
-	17	(2)	1.708
Other operating income	7	3.258	5.590
Impairment of credit losses – net	8	(10.856)	(17.938)
Administrative costs	9	(37.561)	(36.461)
Other operating expenses	10	(685)	(3.801)
Profit before tax		27.588	15.003
Profit tax	11	(5.516)	(3.790)
Profit after tax		22.072	11.213
Unrealized gains on financial assets at fair value through other comprehensive income		(710)	322
Other comprehensive gains		(710)	322
Total comprehensive income		21.362	11.535
Earnings per share	12	6.2	3.2

The accounting policies and notes that follow form an integral part of these financial statements.

Banka Kovanica dd
Statement of financial position

as of December 31, 2021

	Notes	12/31/2021 HRK'000	12/31/2020 HRK'000
ASSETS			
Funds	13	125.515	95.772
Mandatory reserve with the Croatian National Bank	14	68.507	60.737
Placements with banks	15	1.022	1.024
Loans and advances to customers	16	1.188.165	1.016.827
Financial assets at fair value through other comprehensive income	17	122.750	140.801
Property and equipment	18	13.494	14.890
Intangible assets	18	911	940
Foreclosed assets	19	13.101	18.886
Other assets	20	11.431	16.749
Total assets		1.544.896	1.366.626
OBLIGATIONS			
Customer deposits	21	1.314.251	1.157.425
Liabilities to banks	22	6.518	2.091
Hybrid instruments	23	34.667	40.274
Lease obligations	26	4.012	4.879
Other liabilities	25	20.269	18.140
		1.379.717	1.222.809
OWNERSHIP PRINCIPAL			
Share capital	27	106.962	106.962
Own shares		(38)	(38)
Reserves		35.327	36.037
Retained earnings		22.928	856
		165.179	143.817
Total liabilities and equity		1.544.896	1.366.626

The accounting policies and notes that follow form an integral part of these financial statements.

Banka Kovanica dd
Statement of changes in equity

for the year ended 31 December 20 21 . years

	Share capital	Own shares	Capital reserve s	Other reserves	Fair value reserves	Retained earnings / (Loss carried forward)	In total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
On January 1, 2020	106.962	(38)	-	18.920	2.103	4.335	132.282
Profit for the year	-	-	-	-	-	11.213	11.213
Unrealized gains on financial assets at fair value through other comprehensive income	-	-	-	-	322	-	322
Total comprehensive income	-	-	-	-	322	11.213	11.535
Transfer to reserves	-	-	-	14.692	-	(14.492)	-
As of December 31, 2020	106.962	(38)	-	33.612	2.425	856	143.817
On January 1, 2021.	106.962	(38)	-	33.612	2.425	856	143.817
Profit for the year	-	-	-	-	-	22.072	22.072
Unrealized gains on financial assets at fair value through other comprehensive income	-	-	-	-	(710)	-	(710)
Total comprehensive income	-	-	-	-	(710)	22.072	21.362
As of December 31, 2021.	106.962	(38)	-	33.612	1.715	22.928	165.179

The accounting policies and notes that follow form an integral part of these financial statements.

Banka Kovanica dd
Cash flow statement _ _ _

for the year ended 31 December 20 21 . years

	Note	2021 HRK'000	2020 HRK'000
Business activities			
Profit for the current year		22.072	11.213
Amortization	9, 18	2.581	2.732
Profit from sale of property and equipment and intangible assets		(2)	-
Profit from sale of foreclosed assets		(592)	(2,152)
Impairment of credit losses – net	8	10.856	17.938
Result of financial assets at fair value through other comprehensive income		2.455	900
Other non-monetary items		2.045	590
Operating result before changes in operating assets		39.415	31.221
(Increase) / decrease in funds with the Croatian National Bank		(7.770)	17.574
(Increase) loans and advances to customers		(181.678)	(38.185)
Reduction / (increase) of foreclosed and other assets		4.803	(1.721)
Increase / (decrease) in customer deposits		156.827	13.620
(Decrease) / increase in hybrid instruments		(5,607)	549
(Decrease) / increase in other liabilities		259	-339
Net money used for business activities		6.249	22.719
Investment activities			
Purchase of property and equipment and intangible assets	18	(571)	(264)
Receipts from sale of property and equipment and intangible assets		15	-
Proceeds from the sale of foreclosed assets		6.377	6.291
Purchase of financial assets at fair value through other comprehensive income	18	(3.843)	(149.684)
Sale of financial assets at fair value through other comprehensive income	18	18.773	147.210
Net money used for investment activities		20.751	3.553
Financial activities			
Increase / (decrease) in deposits received from banks		4.717	(1.889)
Increase / (decrease) in loans received from banks		(290)	(1.966)
Payment of lease obligations		(1.561)	(1.406)
Net cash from financing activities		2.866	(5.261)
Changes in expected credit losses on cash and cash equivalents		(125)	30
Net reduction in cash and cash equivalents		29.741	21.042
Cash and cash equivalents at the beginning of the year		95.772	74.731
Cash and cash equivalents at the end of the year	13	125.513	95.772

The accounting policies and notes that follow form an integral part of these financial statements.

1. General Information

Activities

BANKA KOVANICA dd Varaždin ("the Bank") was established in 1997 and is registered with the Commercial Court in Varaždin. The Bank's registered office is in Varaždin, P. Preradovića 29.

The Bank performs the following registered activities:

- receiving cash deposits
- approving loans and other placements in its own name and for its own account
- issuing means of payment in the form of electronic money
- issuing guarantees or other warranties
- factoring
- financial lease
- lending, including consumer credit, mortgages and commercial financing (including forfeiting)
- trading in its own name and for its own account or in its own name and for the account of the client: money market instruments and other transferable securities, foreign means of payment including foreign exchange
- trading in financial futures and options, currency and interest rate instruments
- performing payment operations in the country and abroad
- collecting, preparing analyzes and providing information on the creditworthiness of legal and natural persons who independently perform activities
- representation in the sale of insurance policies, in accordance with the law governing insurance, brokerage and representation in insurance
- issuing and managing payment instruments intermediation in concluding financial transactions.

Administration

Nicola Ceccaroli	President
Ivan Mužić	Member

The Bank is subject to regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions relating to minimum capital adequacy requirements, classification of loans and off-balance sheet liabilities and provisions covering credit risk, liquidity positions, interest rates and foreign currencies.

2. Basis of preparation of financial statements

2.1 . Compliance with legal requirements for bank accounting in the Republic of Croatia and IFRS

The financial statements have been prepared in accordance with the legal requirements for bank accounting in the Republic of Croatia. The Bank's operations are conducted in accordance with the Credit Institutions Act, according to which the Bank's financial reporting is prescribed by the Croatian National Bank (CNB), which is the central supervisory institution of the Croatian banking system. These financial statements have been prepared in accordance with the above regulations for banks .

In these financial statements as at 31 December 2021 . and as of December 31, 2020 , are in line with IFRS requirements.

Until 31 December 2019, the Provision of Article 21, paragraph 2 "Decisions on the classification of exposures into risk groups and the method of determining credit losses" of the Croatian National Bank (Official Gazette nos. 114/2017 and 110/2018) was in force. ("Decision"). The Croatian National Bank confirmed in the document (updated on 27 December 2019) "Responses to inquiries from credit institutions" regarding the said Decision under question number 2019-712 that the said provision is no longer in force from 1 January 2020. Consequently, the reduction in the Bank's exposures classified in risk subgroups A-1 and A-2 may no longer amount to a minimum of 0.8%. As at 31 December 2019, there was no significant difference between the measurements in accordance with IFRS and the legal requirements for bank accounting in the Republic of Croatia on this basis.

The other main items listed below may cause differences in measurement in some cases , but these items did not cause a discrepancy between the two frameworks :

- The Bank calculates impairment of loans to legal entities identified on an individual basis as the present value of expected cash flows , discounted at the instrument's original effective interest rate, in accordance with IFRS, using the prescribed minimum amounts of provisions for impairment losses. for certain exposures for which impairment has been specifically identified, prescribed by the CNB, and which may be different from impairment losses calculated in accordance with IFRS.
- CNB requires that the amortization of the calculated discount , if it meets the definition, be shown in the income statement as a change in impairment losses on loans to customers and other assets, instead of as interest income, as required by IFRS .

2.2. Basis for compilation

The financial statements are presented in thousands of Croatian kunas (HRK), unless otherwise stated.

The financial statements have been prepared on a going concern basis, as well as on the going concern basis. The financial statements have been prepared under the historical cost of amortization, except for financial assets carried at fair value through other comprehensive income . Other financial assets and liabilities and non-monetary assets and liabilities are stated at amortized cost or historical cost, less any impairment losses, where appropriate.

The adopted accounting policies are in line with last year's unless otherwise stated and disclosed.

2.3. Adoption of new accounting standards

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

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

- COVID-19 - Concessions after 30 June 2021 (Amendments to IFRS 16) - extended period of application of the exemption until 30 June 2022 (effective for annual periods beginning on or after 1 April 2021);
- Reference interest rate reform - Phase 2 introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is not mandatory until annual periods beginning on or after 1 January 2021.

The adoption of these amendments to existing standards did not result in significant changes in the Bank's financial statements.

2.3. Adoption of new accounting standards (continued)

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

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

- Annual Improvements to IFRSs 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 - Harmful Contracts - Contract Execution Costs): The amendments define which costs should be included in an entity's assessment of the harmfulness of a contract (effective for annual periods beginning on or after 1 January 2022). ;
- *IAS 16 Property, Plant and Equipment (Amendment - Revenue Before Intended Use): The amendment prohibits a reduction in acquisition costs for realized receipts of sold effects produced when bringing plant and equipment in working order for its intended use. Instead of the current practice, the entity will also recognize income and expenses generated by trial operation through the income statement (effective for annual periods beginning on or after 1 January 2022);*
- *IFRS 3 "Business Combinations" - link to the conceptual reporting framework (effective for annual periods beginning on or after 1 January 2022).*

(III) New standards and amendments to existing standards published by the IASB but not yet adopted in the European Union

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union on 31.03.2022. has not yet taken a decision (the effective dates listed below refer to IFRSs issued by the IASB):

- IFRS 17 - Insurance Contracts
- IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities in the Short and Long Term)
- IAS 1 Presentation of Financial Statements and IFRS Statement of Practice 2 (Amendment - Disclosure of Accounting Policies)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Accounting Estimates)
- IAS 12 Income Taxes (Amendment - Deferred Tax on Assets and Liabilities Arising from a Single Transaction)

The above changes are effective for annual periods beginning on or after 1 January 2022.

The Bank expects that the adoption of these new standards and amendments to existing standards will not lead to significant changes in the Bank's financial statements in the period of first application of the standards.

2.4. Critical accounting estimates and judgments

In applying accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that may not be apparent from other sources. Estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The results achieved may differ from those estimated.

The estimates and assumptions on which they are based are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the change affects only that period, or both in the period of the change and in future periods if the change affects both current and future periods.

The following are basic assumptions regarding the future and other key sources of uncertainty of estimates at the balance sheet date that carry significant risk, which may lead to a material adjustment of the carrying amounts of assets and liabilities in the next financial year.

Court cases

As part of its regular operations, several lawsuits and complaints have been filed against the Bank. The Bank's management believes that the eventual final liability of the Bank after the termination of disputes will not have a material adverse effect on the financial position or future performance of the Bank.

Expected credit losses

Although the Bank may incur losses in certain periods, which are proportional to the impairment due to loan impairment, the Management Board has determined that the adjustments for loan losses are adequate to cover losses that could arise from risky assets.

According to the requirements of IFRS 9 of the Standard, all receivables that are measured at amortized cost must be classified into one of 3 phases based on risk criteria. As explained in the previous paragraphs, phase 3 classifies receivables in default status, phase 2 receivables with a significant increase in credit risk, while all other receivables remain in phase 1. The following criteria will be clearly defined below.

Default status

Default status occurs in one or both of the following events:

- The client has a material obligation for more than 90 days,
- There is a possibility that the client will not fully settle its obligations under the contract.

significance of the due credit obligation is assessed according to the materiality threshold, defining the absolute and relative threshold:

- the absolute threshold is expressed as the highest amount of the sum of all due amounts that the debtor owes to the Bank and which does not exceed HRK 750 for retail exposures, or HRK 3,750 for other exposures;
- the relative threshold is expressed as a percentage equal to the amount of the due credit obligation based on the total amount of all balance sheet exposures to that debtor, and is 1%

To determine the probability that the client will not fully settle its obligations under the contract or to determine the status of default, the Bank has implemented an internal scoring model, which with criteria for determining exposure with a significant increase in credit risk, includes the following criteria :

- drop in internal rating for more than 3 grades,
- credit fraud
- initiating bankruptcy proceedings .

The Bank has established a systemic process that ensures the recognition of default status at the client level.

2.4. Critical Accounting Estimates and Judgments (continued)

The level of the client implies that in the case of the client default on any risk exposure, all client on-balance sheet and off-balance sheet exposures are considered defaulted . The Bank has ensured that in the event of a client default , it systematically assesses whether the default of the client (as the principal debtor) has resulted in a deteriorating financial position of the guarantors. In the event that it is obvious that for one of the client 's guarantors there is uncertainty in the payment of his credit obligations in full, that guarantor is also considered defaulted . The default in this case is also assigned at the client level.

The same principle applies to a group of related parties, where the default of one client may cause a deterioration in the financial position of other clients, whether they are guarantors or not. Therefore, for each client

from that group individually assesses whether the default of one or more members of the group of related parties causes a significant deterioration in the financial situation of the client and therefore is not expected to settle liabilities in full without the realization of collateral. In this case, the client is considered defaulted .

Significant increase in credit risk

Given that IFRS 9 does not clearly define what is a "significant increase in credit risk", and taking into account that the Bank is required to use all available information according to the same requirements, this paragraph will define what is considered a significant increase in credit risk the availability of information, the development of the Bank's risk management system, as well as the size and structure of the Bank's portfolio.

To determine exposures with a significant increase in credit risk, the Bank implemented an internal scoring model for exposures of the Retail and Corporate Banks Sectors, and further diversified the indicators used for single-maturity and regular installment credit exposures . repayment , thus defining groups of credit exposures with similar characteristics . The internal scoring model includes the following criteria:

- delay of more than 30 days,
- detection of 3 or more financial triggers ,
- days of blockade (3 days and more in the last 3 months),
- entry of the employer on the CSR list,
- Decrease in internal rating for more than 2 grades.
- breach of contractual financial conventions ,
- turnover on the transaction account less than HRK 100 (or none) in the last 30 days
- pre- bankruptcy proceedings have been initiated,

- withdrawal of cash by Mastercard card in the amount exceeding 50% of the approved monthly limit in the past month,
- death of a natural person .

3. Significant accounting policies

The following is a summary of significant accounting policies adopted in the preparation of these financial statements. These accounting policies have been consistently applied to all periods included in these financial statements, except where otherwise stated.

3.1. Interest income and expense

Interest income is accrued on an accrual basis and at the effective interest rates applicable, which represent the rate at which estimated future cash inflows are discounted to the net carrying amount of the financial asset over its expected useful life.

Interest income includes coupons earned on investments in securities and other fixed income investments, as well as accrued discount and premium on treasury bills and other discounted instruments.

Impairment loans are written off to their recoverable amount and interest income is subsequently recognized based on the interest rate used to discount future cash flows for the purpose of measuring the recoverable amount.

3. Significant accounting policies (continued)

3.2. Fee and commission income and expenses

Fees and commissions consist mainly of fees from domestic and foreign payment transactions, issued guarantees and letters of credit, card operations and other credit instruments of the Bank. Fees and commissions are generally recognized when the service is performed. Loan origination fees that are likely to be withdrawn are deferred (together with the related direct approval costs) and recognized as an adjustment to the effective yield on the loan over the loan period.

3.3. Taxation

Income tax expense is the sum of the tax currently payable and deferred tax. Current tax liability is based on taxable profit for the year. Taxable profit differs from net profit for the period presented in the income statement because it does not include items of income and expense that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Bank's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is provided at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized. Deferred tax is charged or credited to the income statement, unless it relates to items charged or credited directly to equity, in which case the deferred tax is also recognized in equity. Deferred tax assets and liabilities are offset if they relate to income taxes imposed by the same tax authority and if the Bank intends to settle its current tax assets and liabilities on a net basis.

3.4. Business segment reporting

A business segment is a group of business activities related to products or services that are subject to certain risks and rewards and differ from the risks and rewards of other business segments. Geographical segment refers to activities related to products or services within a particular economic environment that are subject to certain risks and benefits and differ from the risks and benefits of segments operating in other economic environments.

3. Significant accounting policies (continued)

3.5. Foreign currency conversion

(a) Functional and reporting currency

Items included in the Bank's financial statements are stated in the currency of the primary economic environment in which the Bank operates (the 'functional currency'). The Bank's financial statements are presented in HRK, which is the Bank's functional and presentation currency.

(b) Foreign currency transactions and balances

Transactions in foreign currencies are translated into HRK at the exchange rates ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated to HRK at the foreign exchange rates ruling at the balance sheet date. Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are stated at historical cost are not retranslated at the balance sheet date.

Exchange differences arising on the settlement of monetary items and their recalculation are stated under "Exchange differences - net" for the period. Foreign exchange differences arising on the translation of non-monetary assets at fair value through profit or loss are recognized in the income statement, except for foreign exchange differences arising on the translation of available-for-sale non-monetary assets for which losses are recognized directly in equity. In this category of non-monetary items, any gain or loss arising on translation is also recognized directly in equity.

The Bank has assets and liabilities originally denominated in HRK, which are linked to foreign currency by a currency clause. Thanks to this clause, the Bank has the possibility to revalue the asset and the related liability by applying the exchange rate valid on the maturity date or the exchange rate valid on the date of issuance of the financial instrument, whichever is higher. In the case of a one-way currency clause embedded in liabilities, the other party has the same option. Thus, the Bank estimates the value of its assets and liabilities to which the said clause applies either at the middle exchange rate of the CNB valid on the balance sheet date, or by applying the contractual exchange rate of the option, ie the original exchange rate if higher.

The CNB exchange rates for the most important currencies used by the Bank in compiling the balance sheet at the reporting dates are as follows:

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

3. Significant accounting policies (continued)

3.6. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash, funds with the CNB, balances on giro accounts and time deposits with other banks with remaining maturities of up to 3 months from the date of acquisition.

Cash and cash equivalents exclude the reserve requirement with the CNB, as reserve requirements are not available to the Bank in its day-to-day operations. The required reserve with the CNB is the amount that all commercial banks licensed to operate in the Republic of Croatia are required to set aside.

3.7. Financial assets

All types of financial assets are classified in their entirety using two criteria:

- business model for financial asset management
- contracted cash flows of financial assets

Types of business models for financial asset management:

- hold - to- collect business model in which financial assets are managed to generate cash flows by collecting contractual payments over the life of the instrument, rather than for sale to make a profit. The objective of an entity's business model may be to hold financial assets for the purpose of collecting contractual cash flows, even if the financial assets have been sold or are expected to be sold in future periods, but provided they are rare (even significant) or insignificant. their value, individually or collectively (even if they are frequent).
- business model whose goal is achieved by collecting contractual cash flows and selling financial assets (hold -to - collect and sell) whose goal is achieved by collecting contractual cash flows and selling financial assets for the daily needs of liquidity management, yield or maturity adjustment of financial assets and liabilities.
- other business models include assets that are not held under the hold -to - collect or hold to- collect business model and sell . In it, financial assets are measured at fair value through profit or loss, and financial assets are managed in order to generate cash flows from the sale of assets.

Depending on the business model of financial asset management and the contracted cash flow characteristics, financial assets are classified as:

- Financial assets that are subsequently measured at fair value through profit or loss
- Financial assets that are subsequently measured at amortized cost
- Financial assets subsequently measured at fair value through profit or loss (FVOSD):
 - FVOSD - debt securities
 - FVOSD - equity securities

3. Significant accounting policies (continued)

3.7. Financial assets

Financial assets at amortized cost - subsequently measured at amortized cost if both conditions are met:

- financial assets are held within a business model whose purpose is to hold financial assets for the purpose of collecting contractual cash flows (hold to collect) and
- based on the contractual terms of the financial asset on certain dates there are cash flows that are only the payment of principal and interest on the outstanding amount of principal (SPPI criterion).

Financial assets at fair value through profit or loss - subsequently measured at fair value through other comprehensive income if both conditions are met:

- financial assets are held within the business model in order to collect contractual cash flows and sell financial assets (hold to collect and sell); and
- on the basis of the contractual terms of financial assets on certain dates there are cash flows that are only the payment of principal and interest on the outstanding amount of principal (SPPI criterion), in the case of debt securities.

Financial assets are measured at fair value through profit or loss unless they are measured at:

- depreciated cost or
- at fair value through other comprehensive income

Recognition of financial assets

All financial assets, including derivative instruments, are recognized in the balance sheet when the Bank becomes part of a binding contract for financial assets.

Transactions in the purchase and sale of financial instruments (foreign exchange, securities and similar financial instruments) that are characterized by spot transactions, ie transactions in which the period from the trade date to the settlement date is not longer than that established by the generally accepted convention, the Bank records in its balance sheet. . In this sense, purchased financial assets are recognized or recorded in the relevant balance sheet accounts on the settlement date of the transaction with the other counterparty, and from the trading date to the settlement date are recorded in off-balance sheet accounts.

For the purpose of determining the foreign exchange position, all spot transactions denominated in foreign currency and currency clause are recorded on the trading day on off-balance sheet accounts (groups of accounts 96 and 99).

Financial assets are initially measured at their fair value, which in the case of financial assets not determined at fair value through profit or loss is increased or decreased by transaction costs that are directly attributable to the acquisition or issue of financial assets

Subsequent measurement

Subsequent to initial recognition, all financial assets classified at fair value through profit or loss and assets at fair value through profit or loss are stated at fair value, except for financial assets that are classified as at fair value through profit or loss.

3. Significant accounting policies (continued)

3.7. Financial assets (continued)

has no quoted price in an active market and whose fair value cannot be reliably determined. The value of such financial assets is stated at cost, including transaction costs, less depreciation and impairment losses. Loans and receivables, and held-to-maturity assets are stated at amortized cost less impairment losses. Depreciation expense is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the instrument and are amortized based on the effective interest rate of the instrument.

The fair value of financial assets is based on the market price at the balance sheet date, net of transaction costs. If a market price is not available, the fair value of the asset is measured at cost.

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

The fair value of derivatives that are not traded on a regulated market is estimated based on the amount of receipts or expenditures that the Bank would have had if it had terminated the contract at the balance sheet date, taking into account current market conditions and counterparty credit risk.

Gains or losses on financial assets classified at fair value through profit or loss are recognized in the income statement.

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

Impairment loss on financial assets

With the aim of timely recognition of losses, the Impairment Model reflects the expected credit losses (ECL), ie the occurrence of a credit event is no longer necessary for the impairment. The Bank updates the amount of expected losses at each reporting date in accordance with changes in credit risk since first recognition. The Bank's placements are categorized into three basic groups according to their regularity in settling due liabilities:

STAGE 1 - are placements that are not in default status and after the initial recognition, the credit risk of individual debtor exposures has not increased significantly. For Stage 1 placements, interest is recognized in full in the income statement, and impairment and provisioning of exposures are made in the amount equal to the expected credit losses over 12 months.

3. Significant accounting policies (continued)

3.7. Financial assets (continued)

STAGE 2 - are placements that are not in default status and after the initial recognition, the credit risk of a particular debtor's exposure has increased significantly. For Stage 2 placements, interest is recognized in full in the income statement, and impairment and exposure provisions are made in an amount equal to the expected credit losses over the life of the instrument.

STAGE 3 - are placements in default status and after the initial recognition there was a significant increase in credit risk. For Stage 3, impairment and provisioning for exposures are made equal to expected credit losses over the life of the instrument, and are determined as the positive difference between the gross carrying amount of each exposure and the present value of the debtor's estimated future cash flows, discounted at the effective interest rate.

Expected losses are measured on any of the following grounds:

- Expected credit losses in the twelve-month period - the portion of expected credit losses over the life that represents expected credit losses resulting from the default of the financial instrument that are possible within 12 months after the reporting date.
- Expected credit losses over the life of the financial instrument - losses resulting from all possible defaults during the expected life of the financial instrument

The recoverable amount of loans and receivables, held-to-maturity investments is calculated as the present value of expected future cash flows, discounted at the instrument's original effective interest rate.

If future cash flows are expected within one year from the balance sheet date, the cash flows need not be discounted.

recoverable amount of the Bank 's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash inflows and outflows, discounted at the original effective interest rate on the asset, as explained in the impairment policies of financial instruments.

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

3. Significant accounting policies (continued)

3.7. Financial assets (continued)

Derecognition of financial assets

When assets at fair value through OSD and assets at fair value through profit or loss are sold in the income statement, their recognition or derecognition from the relevant balance sheet accounts on the date of settlement of the transaction value by the counterparty ceases.

Held-to-maturity assets and loans and receivables are derecognised on the date that the contractual rights to the cash flows from the financial asset expire or when the financial assets are transferred or the Bank loses control of them. Financial assets are transferred if and exclusively if contractual rights to receive cash flows from financial assets are transferred or the contractual right to receive cash flows from financial assets is retained, but a contractual obligation is assumed to pay cash flows to one or more recipients.

3.8. Special financial instruments

Investments in debt securities

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

Debt securities can be classified on acquisition into any of the existing categories of financial assets, depending on the specifics of the debt security and in accordance with the aforementioned classification criteria.

Debt securities classified as financial assets at fair value through profit or loss or at fair value through other comprehensive income are at least adjusted at the end of the month to the estimated or fair value. In the case of debt securities for which the quoted price is published on the active market, the fair value is determined on the basis of the price valid on the day of revaluation (minimum monthly and on the last day of the month).

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

3. Significant accounting policies (continued)

3.8. Special financial instruments (continued)

The Bank will reclassify financial assets if it changes its business model to manage those financial assets. Such changes are expected to be very rare. Such changes are determined by senior management following external and internal changes and must be significant to the Bank's operations and must be demonstrated to external parties. The change in the objective of the entity's business model must be made before the reclassification date.

Investments in equity securities

Equity securities include shares or stakes in companies. Equity securities give the Bank the right to participate in the company's profits and assets after the rights of creditors and other financial providers have been met.

Equity securities are classified as financial assets at fair value through profit or loss (assets held for trading and assets initially recognized at fair value through profit or loss) or as financial assets at fair value through other comprehensive income.

Equity securities classified as financial assets at fair value through profit or loss (assets held for trading and assets initially recognized at fair value through profit or loss) and at fair value through other comprehensive income are at least adjusted at fair value at the end of the month. values. For equity securities listed on an active market, fair value is determined based on the closing price on the same. If an equity security is not quoted in an active market it can be measured at fair value if fair value can be measured reliably. It is considered that fair value can be measured reliably if:

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

If a set of reasonable estimates of the fair value of an equity instrument is significant and the certainty of different estimates cannot be reasonably estimated, such an instrument is not measured at fair value but at cost.

Loans to credit institutions and customers

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

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

3. Significant accounting policies (continued)

3.8. Special financial instruments (continued)

If there is a permanent decrease in the value of loans, due to the existence of objective evidence that the claim will not be fully settled, the value adjustment (provision) of placements is made in which potential losses are identified on an individual basis. In addition to these provisions, a provision for losses or impairment is made on a collective basis for placements classified in risk groups A1 and A2 (stage 1 and stage 2).

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

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

Repurchase agreements

The Bank contracts the purchase (sale) of investments by contracting the resale (purchase) of essentially the same investments on a certain date in the future at a fixed price. Investments purchased with a resale obligation in the future are not recognized in the balance sheet, but expenses under these agreements are recognized as loans to banks or customers. It is also recorded that the purchased receivables are secured by appropriate securities from the repurchase agreement. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are accounted for in accordance with the accounting policy for assets at fair value through other comprehensive income or held-to-maturity, whichever is more appropriate. Proceeds from the sale of investments are presented as liabilities to credit institutions or customers.

The difference between the sale and repurchase amount is recognized on an accrual basis over the period of the transaction and presented as income in the income statement.

3.9. Profit tax

Tax expense consists of current tax and deferred tax. Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The amount of deferred tax is calculated using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities at the rates applicable at the balance sheet date.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax loss can be utilized. The reported tax loss can be used within 5 years after the

year of its occurrence. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

3.10. Long-term tangible and intangible assets

Long-term tangible and intangible assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset over its estimated useful life. Assets under construction are not depreciated.

Depreciation of other assets is calculated using the straight-line method to allocate the cost of those assets over their estimated useful lives, the depreciation rates used are as follows:

	2021	2020
	%	%
Real estate	2.5	2.5
Investments in other people's	20	20
Electronic equipment	20	20
Other assets	20-25	20-25
Software	20	20
Investing in someone else's	20	20

The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date. Furthermore, the carrying amounts of property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether they are recoverable. If the carrying amount of an asset exceeds its estimated recoverable amount, it is written off to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment is recognized in the period in which it is determined and reported within operating expenses. After recognizing an impairment loss, the depreciation charge for property, plant and equipment is adjusted in future periods so that the reassessed carrying amount of the asset, less any residual value, is allocated on a systematic basis over the remaining useful life of the asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

3. Significant accounting policies (continued)

3.11. Leases

IFRS 16 sets out the rules for recognizing, measuring, presenting and disclosing leases. In all leases, the lessee exercises the right to use the property at the beginning of the lease, as well as the right to financing if the rent is paid in installments.

The Bank recognizes: (a) assets and liabilities for all leases with a maturity of more than 12 months, unless the assets in question are of small value; and (b) the depreciation of leased assets separately from interest on leased liabilities in the statement of comprehensive income.

All other rights to use the property are measured at the amount of the lease liability at the date of application of the standard (adjusted for early repayments or calculated lease expense).

At the inception of the lease, lease obligations are measured at the present value of the subsequent lease payments for the related asset during the lease term:

- fixed payments (including payments that are substantially fixed) less rental incentives received;
- variable rent payments that depend on an index or rate;
- amounts expected to be paid by the Bank on the basis of residual value guarantees;
- the purchase price of the purchase option if it is certain that the Bank will use that option;
- payment of penalties for termination of the lease if the lease period reflects the Bank's use of this option.

Lease payments are discounted by applying the interest rate included in the lease, if that rate can be easily determined, or by applying the Bank's marginal lending rate.

Each lease payment is allocated to liabilities and financial expenses. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of the liability is remeasured to reflect the revaluation, change in lease or revised payments that are substantially fixed.

The lease period is an irrevocable lease term; periods covered by the possibility of extending and terminating the lease are included in the lease period only if it is certain that the lease will not be extended or will not be terminated.

3. Significant accounting policies (continued)

3.11. Leases (continued)

Assets with the right of use are initially measured at cost, which includes the following:

- the amount of the initial measurement of the lease obligation;
- lease payments made on or before the commencement date of the lease, less any rental incentives received;
- initial direct costs;
- renovation costs.

Assets receivable are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses and are adjusted for remeasurement of the lease liability due to revaluation or changes in the lease.

Assets with the right of use are depreciated over the life of the asset and the lease term on a straight-line basis, whichever is shorter. Depreciation periods for used assets are as follows:

- the right to use real estate for up to 5 years
- the right to use the equipment for up to 3 years

Payments related to all short-term leases and certain leases of all low-value assets are recognized on a straight-line basis as an expense in the income statement. The Bank applies the exemption for low-value assets on the basis of individual leases, ie for leases for which the assets are the subject of sublease, assets with the right of use with the corresponding lease obligation are recognized; for all other leases of low-value assets, lease payments associated with those leases will be recognized on a straight-line basis over the term of the lease.

Short-term leases are leases with a lease term of 12 months or less.

3.12. Non-current assets held for sale

Non-current assets are classified as held for sale and are carried at book value or fair value less costs to sell, whichever is lower, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

3. Significant accounting policies (continued)

3.13. Reservations

Provisions are recognized if the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably. Management determines the amount of the provision based on a review of individual items, past loss experience, consideration of current economic conditions, risk characteristics of the various categories of transactions and other relevant factors at the balance sheet date. If the effect is material, the provisions are discounted to their present value. Provisions are measured at the present value of the costs that are expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The amount of the provision is increased in each period to reflect the elapsed time. This increase is shown as other operating expenses.

3.14. Employee benefits

Liabilities for pensions and other liabilities after retirement

In the ordinary course of business, the Bank makes regular payments of contributions on behalf of its employees, who are members of mandatory pension funds, in accordance with the law. Mandatory pension contributions to funds are reported as part of the cost of salaries when they are calculated. The Bank does not have an additional pension plan and therefore has no other obligations regarding employee pensions. The Bank has no obligation to insure any other employee benefits after their retirement.

Bonuses

At the annual level, the Bank approves the amounts of variable remuneration in accordance with the performance assessment and the decision of the Supervisory Board on the maximum allowed amount of variable remuneration. Bonus liabilities are therefore not estimated but reported as an expense for the period to which they relate.

Retirement benefits and jubilee awards

The Bank does not have defined plans for its employees or managers to pay severance pay or jubilee benefits after retirement. The Bank pays contributions to its employees into mandatory pension insurance funds, which it reports as an expense for the period to which they relate.

3.15. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. After initial recognition, borrowings are carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. Significant accounting policies (continued)

3.16 . Fiduciary affairs

Both assets and related income, together with related liabilities for the return of assets to clients, are excluded from these financial statements if the Bank acts in a fiduciary capacity, ie as an authorized person, trustee or agent.

3.17. Share capital and treasury shares

External costs that are directly attributable to the issue of new shares, other than those arising from business combinations, are deducted from equity less any related taxes.

When the Bank or its affiliates purchase the Bank's share capital or acquire the right to purchase its share capital, the consideration paid, including all transaction costs less taxes, is shown as a deduction from total equity. Gains and losses on the sale of treasury shares are charged or credited to the treasury shares account within equity. Acquisition of treasury shares is recognized in equity on the trade date.

4. Net interest income

	2021 HRK' 000	2020 HRK' 000
Interest income		
Loans and advances:		
- clients	75.551	70.303
- banks	364	335
Valuable papers	1.660	3.117
	77.575	73.755
Interest expenses		
Customer deposits	(9.961)	(10.730)
Hybrid instruments	(2.772)	(3.016)
Leases	(238)	(267)
Other borrowed funds	(465)	(373)
	(13.436)	(14.386)
Net interest income	64.139	59.368

5. Net fee and commission income

	2021 HRK' 000	2020 HRK' 000
Fee and commission income		
Payments	4.525	4.111
Guarantees and letters of credit	16	57
The rest	6.368	4.410
	10.909	8.578
Fee and commission expenses		
Payments	(467)	(410)
The rest	(3.070)	(2.724)
	(3.537)	(3.134)
Net fee and commission income	7.372	5.444

6. Exchange rate differences - net

	2021	2020
	HRK`000	HRK`000
Profit from exchange rate differences after purchase and sale of foreign currency	1.604	865
Profit from exchange rate differences arising from the reduction of balance sheet items to the middle exchange rate	319	227
	1.923	1.092

7. Other operating income

	2021	2020
	HRK`000	HRK`000
Invoicing of court costs	56	77
Net income from sale of tangible assets	811	2.152
Court settlements and reimbursement of costs	1.439	766
Rental income	182	222
Income according to the court judgment VTS - Triglav osiguranje	190	1.698
The rest	580	676
	3.258	5.591

8. Impairment of credit losses - net

	2021	2020
	HRK`000	HRK`000
Loans and advances to customers (Note 16)	10.637	17.724
Collected receivables written off in previous years	(295)	(268)
Funds	125	(30)
Financial assets through other comprehensive income	(45)	5
Other assets (Note 20)	515	585
Provisions for contingent liabilities and commitments (Note 25)	(81)	(78)
	10.856	17.938

9. Administrative costs

	2021	2020
	HRK`000	HRK`000
Employee costs		
Net salaries	13.294	12.285
Pension insurance costs	3.307	3.182
Health insurance costs	3.115	2.972
Other contributions and payroll taxes	2.331	2.545
Other employee costs	1.852	1.175
	23.899	22.159
Other administrative expenses	10.848	11.034
Impairment of foreclosed assets (Note 19)	233	537
Depreciation (Note 18)	2.581	2.732
	37.561	36.462

As at 31 December 2021, the Bank had 106 employees (2020: 102 employees).

10. Other operating expenses

	2021	2020
	HRK`000	HRK`000
Rental costs	301	419
Deposit insurance premiums	8	3.613
Net provisions for litigation (Note 25)	133	(258)
Net calculated unused vacation days	164	(33)
The rest	79	61
	685	3.802

11. Profit tax

	2021	2020
	HRK`000	HRK`000
Current tax	5.558	2.998
Deferred tax	(42)	792
Profit tax	5.516	3.790

11. Income tax (continued)

	2021	2020
	HRK`000	HRK`000
Accounting profit before tax	27.588	15.003
Impact of items that increase the tax base	8.363	6.408
Impact of items that reduce the tax base	(5,075)	(4,751)
tax base	30.876	16.660
Income tax at the rate of 18%	4.966	2.701
The effect of recognizing deferred tax assets	(42)	-
The effect of disposing of unused deferred tax assets	592	1.089
Profit tax	5.516	3.790
Effective tax rate	19.99%	25,27%
Deferred tax assets at the rate of 18% (2021: 18%)	78	36
Recognized deferred tax assets (Note 20)	78	36

The movement of deferred tax assets was as follows:

	2021	2020
	HRK`000	HRK`000
Status January 1st	36	828
Release of deferred tax assets	(33)	(825)
Recognition of deferred tax assets	75	33
As of December 31	78	36

Income tax is based on taxable profit for the year and consists of current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the asset can be utilized. At each reporting date, the Bank reassesses unrecognized potential deferred tax assets and the recoverable amount of the carrying amount of recognized deferred tax assets.

12. Earnings per share

Basic

Basic earnings per share are calculated by dividing net profit by the weighted average number of existing shares (ordinary) for the observed period without treasury shares.

	<u>2021</u>	<u>2020</u>
Profit for the year (HRK `000)	2.072	11.213
Average weighted number of shares other than treasury shares	<u>3.565.244</u>	<u>3.565.244</u>
Basic earnings per share - ordinary (HRK)	6.2	3.15

Diluted

Diluted earnings per share for 2021 and 2020 are the same as baseline because the Bank did not have convertible instruments and options during both periods.

13. Funds

	<u>12/31/2021</u>	<u>12/31/2020</u>
	<u>HRK`000</u>	<u>HRK`000</u>
Cash on hand	12.510	12.117
Money in the clearing account	44.296	42.369
Foreign currency current accounts	69.063	41.536
Expected credit losses	(354)	(250)
	125.515	95.772

14. Mandatory reserve with the Croatian National Bank

	<u>12/31/2021</u>	<u>12/31/2020</u>
	<u>HRK`000</u>	<u>HRK`000</u>
Allocated reserve requirement:		
-in kunas	68.679	60.889
Expected credit losses	(172)	(152)
	68.507	60.737

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

15. Placements with banks

	12/31/2020 HRK`000	12/31/2020 HRK`000
Loans	5.138	5.138
Deposits	1.029	1.031
	6.167	6.169
Expected credit losses	(5.145)	(5.145)
	1.022	1.024

Changes in provisions for identified losses:

	12/31/2021 HRK`000	12/31/2020 HRK`000
On January 1st	5.145	5.158
New reservations	-	(13)
On December 31st	5.145	5.145

16. Loans and advances to customers

				12/31/2021 HRK`000	12/31/2020 HRK`000
	Stage 1	Stage 2	Stage 3	In total	In total
Loans to households	930.108	14.332	70.157	1.014.597	933.688
Housing loans	11.920	1.029	462	13.411	17.531
Non-purpose cash loans	874.095	13.020	54.828	941.943	853.532
Other loans	44.093	283	14.867	59.244	62.624
Loans to legal entities	223.201	4.016	103.282	330.499	255.030
Working capital loans	142.845	2.626	69.812	215.283	128.249
Factoring	8.337	-	2.320	10.657	34.231
Other loans	72.018	1.390	31.150	104.558	92.550
Gross loans and advances	1.153.309	18.348	173.439	1.345.096	1.188.718
Loans to households	(10.321)	(1.446)	(50.433)	(62.200)	(55.569)
Housing loans	(74)	(39)	(93)	(206)	(852)
Non-purpose cash loans	(10.053)	(1.371)	(38.517)	(49.942)	(39.570)
Other loans	(194)	(36)	(11.822)	(12.052)	(15.147)
Loans to legal entities	(1.338)	(38)	(93.355)	(94.731)	(116.322)
Working capital loans	(863)	(23)	(62.624)	(63.510)	(76.863)
Factoring	(42)	-	(2.320)	(2.362)	(2.705)
Other loans	(433)	(14)	(28.412)	(28.859)	(36.933)
Impairment provisions	(11.659)	(1.484)	(143.788)	(156.931)	(171.891)
Net loans and advances	1.141.650	16.864	29.651	1.188.165	1.016.827

1 6. Loans and advances to customers (continued)

Changes in provisions for impairment of loans and advances to customers are as follows:

2020	Population	Legal persons	In total
	HRK'000	HRK'000	HRK'000
On January 1st	63.006	160.125	223.131
New provisions (Note 8)	23.331	3.718	27.049
Stage 1	3.936	1.126	5.062
Stage 2	2.171	8	2.179
Stage 3	17.224	2.584	19.808
Amounts collected (Note 8)	(5.341)	(3.984)	(9.325)
Stage 1	(1.170)	(1.788)	(2.958)
Stage 2	(99)	(291)	(390)
Stage 3	(4.072)	(1.905)	(5.977)
Write-offs	(25.802)	(44.230)	(70.032)
Stage 3	(25.802)	(44.230)	(70.032)
Exchange rate fluctuations	226	842	(1.068)
On December 31st	55.420	116.471	171.891
2021	Population	Legal persons	In total
	HRK'000	HRK'000	HRK'000
On January 1st	55.420	116.471	171.891
New provisions (Note 8)	19.845	4.065	23.910
Stage 1	2.782	948	3.729
Stage 2	1.027	12	1.039
Stage 3	16.036	3.105	19.142
Amounts collected (Note 8)	(9.795)	(3.477)	(13.272)
Stage 1	(3.942)	(1.440)	(5.382)
Stage 2	(407)	(69)	(476)
Stage 3	(5.446)	(1.969)	(7.414)
Write-offs	(3.788)	(21.585)	(25.373)
Stage 3	(3.788)	(21.585)	(25.373)
Exchange rate fluctuations	(84)	(141)	(225)
On December 31st	61.598	95.332	156.930

17. Financial assets at fair value through other comprehensive income

	12/31/2021	12/31/2020
	HRK'000	HRK'000
Bonds and treasury bills	122.310	140.360
Equity securities - quoted	303	303
Equity securities - unlisted	141	141
Expected credit losses	(4)	(3)
	122.750	140.801

17. Financial assets at fair value through other comprehensive income (continued)

Movements in financial assets at fair value through other comprehensive income are as follows:

	12/31/2021 HRK'000	12/31/2020 HRK'000
On January 1st	140.801	138.912
Acquisition	3.888	149.678
Sale	(18.773)	(147.210)
Unrealized gains / (losses)	(710)	321
Result of realized assets at fair value through other comprehensive income	(2)	1.708
Interest collection	153	489
Exchange rate fluctuations	(2.607)	(3.097)
On December 31st	122.750	140.801

Bonds and treasury bills as at 31 December 2021:

Name	Maturity	Nominal amount (in thousands)	Currency	Book value HRK'000	Unrealized gains / (losses) HRK'000
XS0757376610	03/21/2022	500	EUR	3.848	5
US857524AC63	01/22/2024	500	USD	3.578	129
FR0011619436	05/25/2024	1,500	EUR	12.201	105
IT0005359846	01/15/2025	5,500	EUR	43.654	323
ES00000124W3	04/30/2024	2,500	EUR	21.175	342
PTOTEKOE0011	10/15/2025	4,000	EUR	33.966	515
XS2239061927	02/24/2024	500	EUR	3.888	(8)
				122.310	1.411

As at 31 December 2021, there were no bonds pledged under the repurchase agreement .

18. Property and equipment and intangible assets

	Real estate and land	Electronic equipment	The right to use property	Other assets	Total property and equipment	Software	Assets in preparation	Investments in other people's property	Total intangible assets
	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000
Purchase value									
As of December 31, 2019	12.561	5.758	6.984	9.723	35.026	8.433	-	16.257	24.690
Increases	-	69	413	4	486	107	84	-	191
Transfers	-	-	-	-	-	-	-	-	-
Reductions	-	(87)	-	(25)	(112)	(2.775)	-	-	(2.775)
Situation on December 31, 2020	12.561	5.740	7.397	9.702	35.400	5.765	84	16.257	22.106
Increases	-	77	611	25	713	105	179	185	469
Transfers	-	-	-	-	-	-	-	-	-
Reductions	-	(326)	(42)	(305)	(673)	-	-	(10)	(10)
As of December 31, 2021	12.561	5.490	7.966	9.423	35.440	5.870	263	16.432	22.565
Value adjustment									
As of December 31, 2019	3.026	5.375	1.328	8.942	18.671	8.323	-	14.883	23.206
Depreciation for the period	237	137	1.359	264	1,997	34	-	701	735
Reductions	-	(87)	(46)	(25)	(158)	(2.775)	-	-	(2.775)
Situation on December 31, 2020	3.263	5.425	2.641	9.181	20.510	5.582	-	15.584	21.166
Depreciation for the period	237	133	1.515	199	2.084	56	-	442	498
Reductions	-	(326)	(32)	(290)	(648)	-	-	10	10
As of December 31, 2021	3.500	5.232	4.124	9.089	21.945	5.638	-	16.016	21.654
Net book value									
As of December 31, 2020	9.298	315	4.756	521	14.890	184	84	672	940
As of December 31, 2021	9.061	258	3.841	334	13.494	232	263	416	911

19. Foreclosed assets

Changes in foreclosed assets during the year:

	12/31/2021 HRK'000	12/31/2020 HRK'000
On January 1st	18.886	23.024
Increase	-	-
Reduction	(5.552)	(3.601)
Impairment (Note 9)	(233)	(537)
On December 31st	13.101	18.886

As at 31 December 2021, within the foreclosed assets, the Bank had disclosed real estate in the total amount of HRK 1,085 thousand (2020: HRK 2,101 thousand) in which the Bank was not in physical possession. The bank took over the said real estate in exchange for uncollected receivables and is in the process of coming into physical possession.

20. Other assets

	12/31/2021 HRK'000	12/31/2020 HRK'000
Deferred tax assets	78	36
Claims for reimbursement of court costs	5.370	5.128
Trade receivables	408	2.522
Other advances	301	994
Prepaid costs	2.258	3.563
Receivables from the court for sold real estate	7.877	10.081
The rest	744	1.394
	17.036	23.718
Expected credit losses	(5.605)	(6.969)
	11.431	16.749

Movement of expected credit losses during the year:

	12/31/2021 HRK'000	12/31/2020 HRK'000
On January 1st	6.969	8.608
New provisions (Note 8)	1.747	1.789
Pre-booked amounts collected (Note 8)	(1.232)	(1.204)
Write-off	(1.879)	(2.224)
On December 31st	5.605	6.969

21. Customer deposits

Deposits consist of demand deposits and time deposits:

	12/31/2021	12/31/2020
	HRK`000	HRK`000
Demand deposits		
Legal persons	46.793	29.198
Population	227.697	223.384
	274.490	252.582
Time deposits		
Legal persons	14.071	11.626
Population	1.025.691	893.217
	1.039.762	904.843
Customer deposits	1.314.251	1.157.425
 The short term	 655.976	 526.802
The long term	658.275	630.623

22. Liabilities to banks

	12/31/2021	12/31/2020
	HRK`000	HRK`000
Loans:		
-Croatian Bank for Reconstruction and Development	1.197	1.486
Deposits	5.321	604
	6.518	2.090
 The short term	 5.321	 607
The long term	1.197	1.483

As at 31 December 2021 and 31 December 2020, all deposits with banks are short-term.

23. Hybrid instruments

Hybrid financial instruments represent special term savings deposits of individuals and legal entities without the possibility of rescheduling until the expiration of the contractual period, except for the purchase of the Bank's shares, which, under certain conditions prescribed by the Croatian National Bank, are included in the Bank's recognized capital.

	12/31/2021	12/31/2020
	HRK`000	HRK`000
Foreign persons	24.932	30.466
Domestic people	9.734	9.808
	34.666	40.274

24. Repurchase agreements

As at 31 December 2021 and 31 December 2020, the Bank had no repurchase agreements .

25. Other liabilities

	12/31/2021 HRK`000	12/31/2020 HRK`000
Provisions for litigation	187	92
Provisions for contingent liabilities and commitments	63	144
Liabilities in the calculation	12.979	10.636
Commitments towards suppliers	462	1.519
Liabilities to employees for salaries and contributions	1.742	1.663
Liabilities for deposit insurance premiums	-	-
Calculated unused vacation days	498	334
Other liabilities	4.338	3.751
	20.269	18.139

Changes in provisions for litigation:

	12/31/2021 HRK`000	12/31/2020 HRK`000
On January 1st	92	398
New provisions (Note 10)	143	85
Cancellation of reservation (Note 10)	(10)	(343)
Payments by court rulings	(38)	(48)
On December 31st	187	92

Changes in provisions for contingent liabilities and commitments

	12/31/2021 HRK`000	12/31/2020 HRK`000
On January 1st	144	222
IFRS 9 (Note 2.3)	-	-
New provisions (Note 8)	1.126	1.394
Cancellation of reservation (Note 8)	(1.207)	(1.472)
On December 31st	63	144

26. Lease obligations

	12/31/2021 HRK`000	12/31/2020 HRK`000
Lease obligations	4.012	4.879
	4.012	4.879
The short term	-	-
The long term	4.012	4.879

Liabilities under financial instruments relate to liabilities to banks, hybrid instruments and customer deposits.

	Liabilities under financial instruments	Lease obligation s	Total debt	Cash and cash equivalents	Net debt
Balance on 01.01.2020.	(1.189.476)	(5.656)	(1.195.132)	74.731	(1.120.401)
Cash flows	3.805	1.044	4.849	21.041	25.890
Accrued interest	(14.119)	(267)	(14.386)	-	(14.386)
Balance as of 31.12.2020.	(1.199.790)	(4.879)	(1.204.669)	95.772	(1.108.897)
Balance as of 01.01.2021.	(1.199.790)	(4.879)	(1.204.669)	95.772	(1.108.897)
Cash flows	(142.448)	1.105	(141.343)	29.741	(111.602)
Accrued interest	(13.198)	(238)	(13.436)	-	(13.436)
Balance as of 31.12.2021.	(1.355.436)	(4.012)	(1.359.448)	125.513	(1.233.935)

27. Equity

Share capital

As at 31 December 2021, the Bank's share capital amounts to HRK 106,962 thousand (31 December 2020: HRK 106,962 thousand) and is divided into 3,565,397 ordinary shares (31 December 2020: 3,565,397) (VSK-RA), nominal value HRK 30 per share.

The main shareholders of the Bank as at 31 December are as follows:

Shareholder	12/31/2021		12/31/2020	
	Number of shares	% of share capital	Number of shares	% of share capital
Cassa di Risparmio della Repubblica di San Marino	3.554.514	99.69	3.554.514	99.69
Own shares	153	0.00	153	0.00
The others	10.730	0.31	10.730	0.31
In total	3.565.397	100.00	3.565.397	100.00

28. Contingent liabilities and commitments

Legal disputes

There are currently 13 lawsuits against the Bank. As at 31 December 2021, the provision for litigation for which the Bank envisages payment of compensation amounts to HRK 187 thousand (2020: HRK 92 thousand).

Capital commitments

As at 31 December 2021 and 31 December 2020, the Bank had no liabilities based on capital investments in buildings and equipment.

Credit commitments, guarantees and other financial instruments

The following table sets out the contractual amounts of the Bank's off-balance sheet financial instruments:

	12/31/2021	12/31/2020
	HRK`000	HRK`000
Guarantees	400	464
Credit and other commitments	15.037	10.315
In total	15.437	10.779

The main purpose of these instruments is to ensure the availability of funds according to the needs of clients. Guarantees and letters of credit, which are irrevocable guarantees that the Bank will make payments in the event that a customer is unable to meet its obligations to third parties, carry the same credit risk as placements given.

Commitments to extend credit represent unused approved amounts in the form of loans and guarantees. In connection with the credit risk associated with credit commitments, the Bank is potentially exposed to a loss equal to the total unused commitments. However, the probable amount of loss is less than the total amount of unused commitments because most credit commitments are related to the maintenance of specific credit standards by customers.

Guarantees and non-withdrawn loans are subject to credit risk checks and credit policies similar to those applied when granting loans. The Bank's management believes that the market risk associated with guarantees and non-withdrawn loans is minimal.

29. Related party transactions

Related parties are those in which one party manages the other party or has significant influence over the financial or business decisions of the other party. Related party transactions are part of the ordinary course of business.

The Bank considers that the person is directly related to its major shareholders, their subsidiaries, members of the Supervisory Board, the Management Board and members of their immediate family.

In 2021 and 2020, related party transactions are shown in the table as follows:

	Supervisory Board, Management Board and their related parties	
	2021	2020
	HRK'000	HRK'000
Revenues and expenses		
Interest income	2	1
Other operating income	59	26
Interest expenses	8	18
Other business expenses	5.068	5.120
Loans		
On January 1st	120	121
Increase / Decrease	-	(1)
On December 31st	120	120
Deposits received		
On January 1st	3.601	3.592
Increase	3.030	2.674
Reduction	(2.174)	(2.665)
On December 31st	4.457	3.601

Gross salaries and other short-term remuneration of the Management Board and the Supervisory Board in 2021 amount to HRK 5,332 thousand (2020: HRK 5,120 thousand). The total amount of contributions to the first and second pension pillars in 2021 amounts to HRK 374 thousand (2020: HRK 817 thousand)

30 . Related party transactions (continued)

	Cassa di Risparmio della Repubblica di San Marino	
	2021	2020
	HRK'000	HRK'000
Revenues and expenses		
Interest income	-	-
Other operating income	-	-
Other business expenses	(467)	(469)
Interest expenses	(1.346)	(1.448)
Deposits and cash given		
On January 1st	705	683
Increase	-	22
Reduction	(15)	-
On December 31st	690	705
Deposits received		
On January 1st	703	2.645
Increase	4.510	2
Reduction	(188)	(1.944)
On December 31st	5.025	703
Hybrid instruments		
On January 1st	17.973	17.742
Increase	-	231
Reduction	(2.776)	-
On December 31st	15.197	17.973

As at 31 December 2021, the exposure to the majority owner amounts to HRK 690 thousand, and represents 0.42% of the bank's regulatory capital (2020: 0.44%, 2019: 0.44%, 2018: 0.82%, 2017: 0.88%, 2016: 0.00%, 2015: 15.36%). The regulatory limit of exposure to one person or group of connected persons may not exceed 25% of the recognized capital of the credit institution

Interbank transactions between the Bank and the parent bank CRSM relate to short-term active and passive deposits.

In 2021, there were no short-term interbank deposits with related parties. The Bank has hybrid instruments with maturities and interest rates with related parties.

The Bank has contracted hybrid instruments with Related Party Real Estate Plus and CRSM that have capital and liability characteristics in accordance with Article 63 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council with currency dates, maturity dates and agreed interest rates.

30. Related party transactions (continued)

	Nekretnine plus doo	
	2021	2020
	HRK'000	HRK'000
Revenues and expenses		
Interest income	295	301
Other operating income	474	78
Other business expenses	(560)	(524)
Interest expenses	(670)	(716)
Loans given		
On January 1st	5.786	5.938
Increase	-	-
Reduction	(125)	(152)
On December 31st	5.661	5.786
Deposits received		
On January 1st	1.823	1.698
Increase	3.168	1.292
Reduction	-	(1.167)
On December 31st	4.991	1.823
Hybrid instruments		
On January 1st	9.808	9.647
Increase	-	161
Reduction	(74)	-
On December 31st	9.734	9.808

30. Financial risk management

The Bank's business activities are exposed to various types of financial and operational risks, and the management of these risks includes the analysis, assessment, acceptance and management of a particular level of risk or combination of risks. Risk management is a fundamental feature of financial management. The Bank's goal is therefore to achieve an appropriate balance between risk and return and to minimize potential negative effects on the Bank's financial operations.

The Bank's risk management policies are designed to identify and analyze these risks in order to set appropriate limits and controls, and to monitor risks and adherence to limits through reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to identify changes in markets, products and best practices.

Risk management is the responsibility of the Management Board and the Assets and Liabilities Management Committee (ALCO). The Management Board determines, assesses and implements financial risk protection in close cooperation with the Bank's operating units. The Management Board defines written principles for the overall risk management as well as written policies that cover certain areas, such as currency risk, interest rate risk, credit risk, liquidity risk, price risk, operational risk and the use of derivative and non-derivative derivative financial instruments. Furthermore, the Internal Audit Headquarters is responsible for the independent review of risk management and control environment.

The most significant types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and other types of price risk.

31.1. Credit risk

The Bank is exposed to credit risk, which can be defined as the risk of loss due to default of a debtor's monetary obligation to the Bank. Significant changes in the economy or in the status of a particular industry segment that represents a concentration of credit risk in the Bank's portfolio could lead to losses for which no provisions have been made at the balance sheet date. Management is therefore very cautious in managing credit risk exposure. Exposure to credit risk arises primarily from loans and advances, debt and other securities. Credit risk also exists in off-balance sheet financial arrangements such as loan commitments and other guarantees issued. Credit risk management and risk control are centralized within the headquarters Risk Management Department.

3 1.1. Credit risk (continued)

The Bank calculates allowances and provisions in accordance with the requirements of IFRS 9 using the Expected Credit Loss Model (ECL).

ECL (Expected Credit Loss) is the expected credit loss per financial asset under observation. According to the template, the ECL is defined as the expected loss over the life of the financial asset (phase 2), but by limiting the T parameter to one year, it can easily be redefined as a one-year expected loss (phase 1). The phase 3 ECL does not imply the use of this form and defined parameters, and is therefore not the subject of this part of the methodology.

EAD (Exposure At Default) represents the exposure for a particular financial asset at the time of default

MPD (Marginal Probability of Default) represents the marginal probability of default status for a particular financial asset for a particular period (t). The MPD over the life of the asset should reflect all relevant factors that affect this probability, ie in addition to including historical data based on PD and DR (default rate) statistics, it is necessary to include macroeconomic forecasts in the future, all in order to make realistic projections. ECL.

LGD (Loss Given Default) is the loss in the event of the default status of a particular financial asset.

31.1. Credit risk (continued)

DF (Discount Factor) is the discount factor for a given period based on the effective interest rate.

All estimated future cash flows (receipts and expenditures) are discounted at the effective life of the financial instrument at the effective interest rate. Effective interest rate is the real interest rate applied that reflects all dependent costs related to a particular financial instrument. It contains the total income that the Bank collects from the client when approving a loan placement and during its repayment, ie the total expenses of the Bank incurred in connection with payments to the client on the basis of received deposits. When calculating the effective interest rate, the Bank estimates expected cash flows taking into account all contractual terms of the financial instrument (eg early payment , prolongation , etc.), but does not take into account expected credit losses. The calculation includes all fees and amounts paid or received between the parties that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

Apart from the discount factor, which is calculated in a known manner and is based on the effective interest rate, which has not undergone any changes in the definition, all other factors require some modeling and need to be considered individually.

Adequate modeling of parameters is necessary for a quality calculation of value adjustments and it will be explained below how to approximate each of these parameters in compliance with the requirements imposed by IFRS 9.

EAD model

EAD (Exposure At Default) represents the estimated gross carrying amount at the time of default , taking into account the cash flows of the financial instrument, as well as possible additional withdrawals from the credit line, up to the default date , ie over the life of duration of the financial instrument.

For exposures involving one withdrawal , the EAD is equal to the outstanding (remaining) part of the exposure, taking into account the relevant contractual maturity .

For exposures that include fully unused approved limits , the expected value of the unused (off-balance sheet) part of the limit is determined using the credit conversion factor.

For exposures where the contractual maturity is defined , it is taken as the maximum period for calculating the lifelong loss, while for exposures where the maturity is not defined or which are automatically renewed, the Bank conducted an analysis of customer behavior and determined expected or effective maturity .

PD model

PD or Probability of Default represents the probability that the client's default status will occur . The term lifetime PD represents the same probability for the entire remaining life of a financial instrument. Marginal PD or MPD (t) represents the probability (unconditional) of default status in period t, while cumulative PD or CPD (t) represents the sum of all marginal PDs starting from initial recognition to some time t.

In order to ensure that estimates (12-month and multi-year) values of PDs used in calculating expected credit losses are credible and reliable measures of the “ defalutation ” process over the life of its exposures, the Bank requires that they meet the following and properties:

- impartiality, ie from the statistical point of view they should represent the best estimates,
- are determined on the basis of appropriate homogeneous groups,
- data used for calibration of PD models (especially those related to historical default rates and maturity structure of PDs) are harmonized with the regulatory definition of defaults ,
- internally available data of the Bank are used for the development of PD models wherever possible , and which are representative of the observed portfolio,
- lifelong PD values are determined using appropriate extrapolation methodologies , which do not cause bias in estimating ECL values,
- for instruments with mutually comparable levels of credit risk, the risk of future defaults must be all the greater the longer the expected life of the instrument (resulting in a requirement for monotonically increasing cumulative multi -annual PD curves),
- are regularly " back -tested" and recalibrated (on an annual basis) at the level of the portfolio segment, and if this is not possible on representative samples,
- include forward -looking information , including projections of macroeconomic factors (in order to minimize possible delays in recognizing credit losses.

31.1. Credit risk (continued)

statistical analysis of homogeneity by different groups of exposures, for the purpose of estimating the value of PD parameters, the Bank created PD-homogeneous groups of exposures based on customer segments, product types and defined delay days, to which they were appropriately assigned. PiT values of one-year PD.

The calculation of transitions, ie migration of exposures from one category to another is observed by exposures that existed at the beginning and end of the observed 12-month period, respectively. The PiT concept, assigned the highest weight of the default rate from the end of the year, while each subsequent 12-month period (as in the past) is assigned a lower contribution weight.

Macro / Forward is performed for the initially obtained PD values looking information (FLI) adjustment by introducing macroeconomic variables. Bearing in mind that the Bank's data compared with the development of macroeconomic variables did not lead to the conclusion that there is a correlation between portfolio quality development and macroeconomic indicators, the Bank provides the best possible assessment of portfolio quality development expectations. PD parameters), and estimates the development of 3 macroeconomic parameters: % change in GDP, % change in unemployment rate and % change in inflation rate. The development of macroeconomic parameters is observed through 3 scenarios (basic, optimistic and pessimistic), and the probability weight is determined for each scenario. For these macroeconomic parameters, the Bank monitors the planned and achieved values from 2010, and determines how many times the prediction of selected macroeconomic parameters was identical (or more or less identical: +/- 2) realized, and how many times the prediction of selected macroeconomic parameters significantly smaller / larger in relation to their realization. The number of periods in which the prediction of achieved macroeconomic parameters was identical to the realized one is compared to the total number of years (in which macroeconomic indicators are monitored), thus gaining weight for the baseline scenario. The number of periods in which the prediction of achieved macroeconomic parameters has significantly failed in relation to their realization, ie so many times

the optimistic scenario occurs, it is put in proportion to the total number of years (in which macroeconomic indicators are monitored), and in this way the probability weight for the optimistic scenario is obtained. Number

periods in which the prediction of achieved macroeconomic parameters is significantly higher than their realization, ie the pessimistic scenario has occurred so many times, is put in proportion to the total number of years (in which macroeconomic indicators are monitored), and the mode gains a probability weight for the pessimistic scenario. For each of the above scenarios, the values of each macroeconomic parameter are determined, and the projected values from publicly available sources (publications of the CNB, the Republic of Croatia, the Ministry of Finance, the Central Bureau of Statistics) are taken as the baseline scenario. Pessimistic scenarios take projected values if they are available, and if they are not available then the projected value in the baseline scenario decreases / increases according to the assigned probability weights for those scenarios.

To calculate the amount of expected credit loss, the maturity structure of the PD is determined first, ie the set of cumulative and marginal values of default for each of the future time periods. The cumulative probability of default is the probability that the debtor "defaults" at any time between the present moment

(t_0) and a certain move (t_k) in the future, while the marginal value of the default represents the probability that the debtor "defaults" at time t , after has "survived" to the moment of $t-1$.

To calculate the 12-month value of PiT PDs for each of the PD - homogeneous groups, the Bank uses the methodology of Markov transition matrices among PD -homogeneous groups, where the last column of the conditional transition matrix between PD-homogeneous groups represents the value of the cumulative PD for the following year. The probability of transitions between PD -homogeneous groups does not depend on the moment we observed them (assumption of temporal homogeneity of the Markov chain of transition states), so the relation according to which a one-year transition matrix defines perennial transition matrices using matrix multiplication, corrected by vectors representing the (linearized) impact of changes in macroeconomic conditions for each year, describes the dynamics of transition of future exposures (at the level of homogeneous group) to default status over a multiannual period, from which we derive the PD maturity structure, that is, cumulative multiannual PD values for each individual PD-homogeneous group.

application of z - shift adds the effects of the development of macroeconomic parameters in accordance with the scoreboards given in Annex 1 of this document. A matrix of cumulative probabilities is created from the basic matrix, the last column and row are annulled (they do not affect the result), then for values from the rest of the matrix there are inverse values to which a score of macro variables is added. The newly obtained matrix is returned to the matrix of cumulative probabilities, from which the final one -year matrix of marginal probabilities is obtained.

LGD model

Given the complexity of the requirements of IFRS 9 standards in terms of developing LGD models on the one hand, as well as the size of the bank, relatively simple portfolio structure and small amount of data on the other hand, the Bank will use LGD parameters defined by the Basel Framework. According to the assessment of the regulatory values of the LGD parameter, the bank will add a conservative factor of 5pp. The values of LGD parameters used by the Bank are as follows:

retail insured - 40%

retail uninsured - 80%

corporate - 50%

31.1. Credit risk (continued)

31.1.1. Impairment calculation

After the calculation of the parameters, the calculation of the value adjustment is performed. Using data from the current portfolio, after segmentation according to the calculated parameters (segments on the basis of which PD and LGD parameters were estimated), the criteria for determining Stage are first applied. Thereafter, the allowance for Stage 1 and Stage 2 is calculated, while for Stage 3 exposures the impairment is determined as the positive difference between the gross carrying amount of each exposure and the present value of estimated future cash flows, discounted at the effective interest rate.

The Bank calculates the allowance for each reporting date (quarterly), while estimates of PD and LGD parameters are estimated at least once a year and are valid for one year.

Credit risk measurement

(a) Loans and advances

When granting loans and advances to clients and banks on the basis of contracts, the Bank assesses and measures credit risk on the basis of:

1. assessments of the debtor's creditworthiness,
2. assessments of the debtor's regularity in settling contractual obligations and
3. according to the quality of collateral instruments.

The bank assesses the creditworthiness of the applicant using external rating tools. These combine statistical analyzes and judgments of the financial advisor, and are evaluated, if necessary, by comparison with available external data. Based on the collected data and calculated indicators, the financial analyst must prepare an opinion on the client's financial position based on the collected data and calculated indicators, and give his / her opinion regarding the approval. The Bank's placements to clients are divided into three valuation categories: fully recoverable placements, partially recoverable placements and non-recoverable placements.

Settlement of liabilities means the payment of all liabilities within the agreed maturity dates, without establishing a new claim.

The quality of collateral is determined on the basis of marketability, documentation and the possibility of forced collection.

3 1.1. Credit risk (continued)

Impairment calculation (continued)

(b) Debt securities and other bills

With regard to debt securities and other bills, the Treasury Sector uses external valuations such as Standard & Poor's , Moody's , Fitch , BCA and others, if any. Investing in these securities and bills is considered a way to better plan credit quality while maintaining an available source of funding.

31.1.2. Control of risk limits and policies to mitigate them

The Bank manages, limits and controls the concentration of credit risk wherever such risk is identified, especially with respect to individual customers and groups, industry sectors and countries.

The Bank establishes the levels of credit risk (stage 1, stage 2, stage 3) which it assumes by setting limits on the amount of risk accepted in relation to one borrower and related persons and industry segments. Credit risk limits to industry sectors are reviewed annually or more frequently, as appropriate.

Credit risk exposure is also managed through regular analysis of the ability of borrowers and potential borrowers to meet all obligations to the Bank and to change credit limits where necessary.

The following are further specific control and mitigation measures:

(a) Pledge

The Bank uses a range of policies and procedures to mitigate credit risk. Traditionally, a pledge is taken for certain types of placements. The Bank has an internal act on the eligibility of specific categories of collateral or credit risk mitigation. The most important types of pledges are as follows:

mortgage over housing;

mortgages on business assets, such as business premises, inventories and receivables, equipment;

mortgages on financial instruments, such as debt and equity securities.

Debt securities, treasury and other bills are generally not secured.

(b) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to the customer as needed. Guarantees have the same credit risk as loans. Loan extension commitments represent unused portions of the loan extension authorization in the form of loans or guarantees. With respect to credit risk on loan extension commitments, the Bank is potentially exposed to a loss in the amount corresponding to the total unused commitments. However, the potential amount of loss is less than the total amount of unused commitments, as most commitments depend on the maintenance of specific

31.1. Credit risk (continued)

31.1.2. Control of risk limits and mitigation policies (continued)

credit standards by customers. The Bank monitors the remaining period to maturity of loans as long-term liabilities generally have a higher degree of credit risk compared to short-term liabilities.

COVID - 19

The global economic shock caused by the coronavirus pandemic , which led to a sudden halt in economic and social activities, marked 2020, but as the pandemic continued in 2021, it also affected economic activities in 2021. Despite the increase in vaccination and mitigation of epidemiological measures during the summer months of 2021 (which , thanks to the successful tourist season , strengthened the economic recovery), the economic situation remains uncertain.

The pandemic also had an adverse effect on economic activity in Croatia, and in order to ensure sustainable economic activity and preserve jobs, the CNB adjusted its supervisory expectations regarding the classification of exposures to clients affected by COVID -19, clients affected by the devastating earthquake. in Zagreb and its surroundings, and towards clients in the area for which the Government of the Republic of Croatia has declared a catastrophe caused by an earthquake. In accordance with the CNB Circulars, it is possible to approve payment deferrals and reprograms without reclassification to risk group B or worse until 30 June 2021. years.

total approved level of the moratorium on loan repayments in the Bank was the lowest absolute and relative levels in the domestic banking system, so that the Bank was not exposed to the negative financial impact that could follow after the lifting of measures. Approved said moratoriums were lifted on 30.06.2021. when, in accordance with the aforementioned Circulars, a new assessment of the classification of these exposures was conducted, which included an assessment of whether the debtor will be able to fully meet its obligations.

The low absolute and relative exposure to pandemic-related moratoriums stems from the Bank's niche business model, which specializes in consumer loans with a relative preference for employees in state and public institutions and retirees. The Bank's superior underwriting standards were confirmed before and after the outbreak of the pandemic, namely that the Bank always adhered to the February 2019 supervisory recommendation to apply the same criteria for housing loans when determining the applicant's creditworthiness for non-residential consumer loans. costs that may not be less than the amount prescribed by the Enforcement Act), regardless of the original maturity of the loan. Moreover, the Bank's insurance standards have always been based only on the basic salary, excluding allowances and other non-basic salary components (transport, incentives, etc.), in line with recent amendments to the Enforcement Act.

31.1. Credit risk (continued)

31.1.2. Control of risk limits and mitigation policies (continued)

Despite a very challenging business year, the Bank's operations are stable, the Bank's liquidity and solvency and capitalization are not compromised, while profitability is high and stable: in particular, safe liquidity maintenance (money-rich profile enhanced by diversified customer base and consolidated maturity structure); robust capitalization (satisfactory own funds with increased free capital, thanks to self-financing capacities and asset optimization); high and stable profitability (consistent return on capital is double-digit, despite the higher cost of risk caused by the pandemic).

31.1.3. Impairment and provisioning policies

According to the CNB's rules, impairment provisions are recognized for financial reporting purposes only for losses incurred on the balance sheet date based on objective evidence of impairment.

The provision for impairment shown in the balance sheet at the end of the year is based on three internal valuation stages. However, most impairment provisions are based on the last two estimates. The table below shows the percentage of the Bank's balance sheet items related to loans and advances to customers, and the related provision for impairment for each category of the Bank's internal assessment:

Bank evaluations

	2021		2020	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
	HRK'000	HRK'000	HRK'000	HRK'000
1. Fully recoverable placements	1.171.657	13.143	1.000.526	15.065
2. Partially recoverable placements	91.765	62.114	104.473	73.107
3. Irrecoverable placements	81.674	81.674	83.719	83.719
	1.345.096	156.931	1.188.718	171.891

Bank evaluations

	2021		2020	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
	HRK'000	HRK'000	HRK'000	HRK'000
1. Fully recoverable placements	87.11	8.37	84.17	8.77
2. Partially recoverable placements	6.82	39.58	8.79	42.53
3. Irrecoverable placements	6.07	52.05	7.04	48.70
	100.00	100.00	100.00	100.00

The internal evaluation tool assists the Management Board in determining whether there is objective evidence of impairment based on the following criteria defined by the Bank:

3 1.1. Credit risk (continued)

31.1.3. Impairment and provisioning policies (continued)

- Delays in contractual deadlines for payment of principal, interest or fees;
- Difficulties of placement users with cash flow (eg capital ratio, percentage of net sales revenue);
- Violation of the terms and conditions of the approved placement;
- Initiation of bankruptcy proceedings;
- Decrease in value of pledge.

The Bank's policy requires, at least once a year or more frequently, if circumstances so require, to review individual financial assets that exceed the materiality level. Impairment provisions for individual items are determined based on an estimate of the loss incurred at the balance sheet date, as appropriate, and apply to all significant items. The assessment typically includes existing pledges (including reaffirmation of their applicability) and expected receipts for individual items.

31.1.4. Maximum exposure to credit risk before collateral or other credit protection instruments

					12/31/2021 HRK'000	12/31/2020 HRK'000
	No impact	Stage 1	Stage 2	Stage 3		
Exposure to credit risk related to balance sheet assets						
Cash in hand and in bank accounts	12.510	113.004	-	-	125.514	95.772
Mandatory reserve with the Croatian National Bank	-	68.507	-	-	68.507	60.737
Placements with banks	-	1.022	-	-	1.022	1.024
Loans and advances to customers	-	1.141.651	16.863	29.651	1.188.165	1.016.827
Financial assets at fair value through other comprehensive income	444	122.306	-	-	122.750	140.801
Other assets	2.348	9.047	36	-	11.431	16.749
	15.302	1.455.538	16.899	29.651	1.517.390	1.331.910
Exposure to credit risk related to off-balance sheet assets						
Financial guarantees	-	400	-	-	400	464
Letters of credit	-	-	-	-	-	-
Credit and other related commitments	-	15.006	31	-	15.037	10.315
	-	15.406	31	-	15.437	10.779

The above overview shows the Bank's maximum exposure to credit risk as at 31 December 2021 and 2020, excluding collateral or other credit protection instruments. With respect to on-balance sheet assets, the above exposure is based on the net book value presented in the balance sheet. As shown above, 78.30% of the total maximum exposure relates to loans and advances to banks and clients (76.34% in 2020).

3 1.1.5. Loans and advances these

Loans and advances are summarized as follows:

	12/31/2021		12/31/2020	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
	HRK'000	HRK'000	HRK'000	HRK'000
Overdue and value not impaired	1.165.495	1.029	994.061	1.031
Due, but not impaired	6.162	-	6.465	-
Value individually reduced	173.439	5.138	188.192	5.138
Gross	1.345.096	6.167	1.188.718	6.169
Decreased by: provision for impairment	(156.930)	(5.145)	(171.891)	(5.145)
Net	1.188.166	1.022	1.016.827	1.024

The total provision for impairment of loans and advances amounts to HRK 156,930 thousand (2020: HRK 171,891 thousand), of which HRK 143,788 thousand (HRK 156,825 thousand in 2020) represents loans with individually impaired values, and the remaining amount of HRK 13,143 thousand (2020: HRK 15,066 thousand) represents a provision for the portfolio of fully recoverable placements. Further information on impairment provisions for loans and advances to banks and customers is provided in Notes 15 and 16.

An overview of the gross amount of loans and advances by category is as follows:

	Population	Legal persons	Total loans and advances to customers	Loans and advances to banks
	HRK'000	HRK'000	HRK'000	HRK'000
December 31, 2020				
<i>Overdue and value not impaired</i>				
Fully recoverable placements	870.601	123.459	994.060	1.031
<i>Due, but not impaired</i>				
Maturity up to 30 days	2.349	2.783	5.132	-
Maturity from 30 to 90 days	1.274	59	1.333	-
<i>Value individually reduced</i>				
Individually impaired loans	59.464	128.728	188.192	5.138
In total	933.688	255.029	1.188.717	6.169
December 31, 2021				
<i>Overdue and value not impaired</i>				
Fully recoverable placements	941.518	223.977	1.165.495	1.029
<i>Due, but not impaired</i>				
Maturity up to 30 days	2.120	3.088	5.209	-
Maturity from 30 to 90 days	802	151	953	-
<i>Value individually reduced</i>				
Individually impaired loans	70.156	103.283	173.439	5.138
In total	1.014.596	330.499	1.345.096	6.167

3 1.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

It is considered that the value of loans and advances due with a maturity of less than 90 days is not impaired, unless other information is available to the contrary. After the initial recognition of loans and advances, the fair value of collateral is based on the valuation techniques typically used for the related asset. In future periods, fair value is updated based on market price or indicators of similar assets.

				12/31/2020 HRK`000
	Gross exposure	Value adjustment	Book value	The amount of exposure secured by collateral
Loans to households	933.688	55.569	878.119	53.447
Housing loans	17.531	852	16.679	17.100
Non-purpose cash loans	853.533	39.571	813.962	19.417
Other loans	62.624	15.146	47.478	16.930
Loans to legal entities	255.030	116.322	138.708	152.972
Working capital loans	128.249	76.684	51.565	79.639
Factoring	34.231	2.705	31.526	4.637
Other loans	92.550	36.933	55.617	68.696
Total impairment of credit assets	1.188.718	171.891	1.016.827	206.419

				12/31/2021 HRK`000
	Gross exposure	Value adjustment	Book value	The amount of exposure secured by collateral
Loans to households	1.014.598	62.200	952.398	38.496
Housing loans	13.411	206	13.205	10.171
Non-purpose cash loans	941.943	49.942	892.001	25.581
Other loans	59.244	12.052	47.192	2.744
Loans to legal entities	330.498	94.731	235.767	154.235
Working capital loans	215.283	63.510	151,773	118.006
Factoring	10.657	2.362	8.295	502
Other loans	104.558	28.859	75.699	35.727
Total impairment of credit assets	1.345.096	156.931	1.188.165	192.731

3 1.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

				HRK`000
	Stage 1	Stage 2	Stage 3	In total
Housing loans				
Gross book value on 31 December 2020	15.395	863	1.273	17.531
Movements:	(197)	197	-	-
Stage 1 in Stage 2	-	-	-	-
Stage 1 in Stage 3	-	-	-	-
Stage 2 in Stage 3	-	-	-	-
Stage 2 in Stage 1	-	-	-	-
Stage 3 in Stage 1	-	-	-	-
No change	(3.277)	(31)	(578)	(3.887)
Write-offs	-	-	(234)	(234)
Total gross book value as of December 31, 2021	11.921	1.029	461	13.411

				HRK`000
	Stage 1	Stage 2	Stage 3	In total
Housing loans				
Expected credit losses as at 31 December 2020	189	202	461	852
Movements:				
Stage 1 in Stage 2	(23)	23	-	-
Stage 1 in Stage 3	-	-	-	-
Stage 2 in Stage 1	-	-	-	-
Stage 3 in Stage 1	-	-	-	-
PD / LGD / EAD changes (Note 8)	(93)	(185)	-	(278)
Changes in assumptions and methodology (Note 8)	-	-	(134)	(134)
Exchange rate differences and other movements	-	-	-	-
Total net impact on profit for the year	(116)	(162)	(134)	(412)
Other developments without impact on profit for the year	-	-	-	-
Movements:				
Stage 2 in Stage 3	-	-	-	-
Stage 3 in Stage 2	-	-	-	-
Write-offs	-	-	(234)	(234)
Total expected credit losses as at 31 December 2021	74	39	93	206

3 1.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

				HRK`000
	Stage 1	Stage 2	Stage 3	In total
Non-purpose cash loans				
Gross book value				
on 31 December 2020	791.404	23.157	38.972	853.533
Movements:				
Stage 1 in Stage 2	(8.471)	8.471	-	-
Stage 1 in Stage 3	(13.648)	-	13.648	-
Stage 2 in Stage 3	-	(7.178)	7.178	-
Stage 2 in Stage 1	9.624	(9.624)	-	-
Stage 3 in Stage 1	942	-	(942)	-
Stage 3 in Stage 2	-	169	(169)	-
No change	94.243	(1.974)	(3.335)	88.933
Write-offs	-	-	(523)	(523)
Total gross book value as of December 31, 2021	874.094	13.021	54.829	941.944

				HRK`000
	Stage 1	Stage 2	Stage 3	In total
Non-purpose cash loans				
Expected credit losses as at 31 December 2020	9.734	2.433	27.403	39.571
Movements:				
Stage 1 in Stage 2	(976)	976	-	-
Stage 1 in Stage 3	(4.126)	-	4.126	-
Stage 2 in Stage 1	111	(111)	-	-
Stage 3 in Stage 1	11	-	(11)	-
PD / LGD / EAD changes (Note 8)	5.299	1.006	-	6.306
Changes in assumptions and methodology (Note 8)	-	-	4.588	4.588
Exchange rate differences and other movements	-	-	-	-
Total net impact on profit for the year	319	1.871	8.703	10.893
Other developments without impact on profit for the year				
Movements:				
Stage 2 in Stage 3	-	(2.954)	2.954	-
Stage 3 in Stage 2	-	20	(20)	-
Write-offs	-	-	(523)	(524)
Total expected credit losses as at 31 December 2021	10.053	1.370	38.517	49.940

30.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

				HRK`000
Other loans to households	Stage 1	Stage 2	Stage 3	In total
Gross book value on 31 December 2020	43.121	284	19.219	62.624
Movements:				
Stage 1 in Stage 2	(31)	31	-	-
Stage 1 in Stage 3	(228)	-	228	-
Stage 2 in Stage 3	-	(56)	56	-
Stage 2 in Stage 1	16	(16)	-	-
Stage 3 in Stage 1	-	-	-	-
Stage 3 in Stage 2	-	-	-	-
No change	1.216	40	(1.605)	(350)
Write-offs	-	-	(3.031)	(3.030)
Total gross book value as of December 31, 2021	44.094	283	14.867	59.244

				HRK`000
Other loans to households	Stage 1	Stage 2	Stage 3	In total
Expected credit losses as at 31 December 2020	555	6	14.586	15.146
Movements:				
Stage 1 in Stage 2	(5)	5	-	0
Stage 1 in Stage 3	(104)	-	104	0
Stage 2 in Stage 1	0	0	-	0
Stage 3 in Stage 1	-	-	-	0
PD / LGD / EAD changes (Note 8)	(251)	76	-	(176)
Changes in assumptions and methodology (Note 8)	-	-	112	112
Exchange rate differences and other movements	-	-	-	0
Total net impact on profit for the year	(360)	81	216	(64)
Other developments without impact on profit for the year				
Movements:				
Stage 2 in Stage 3	-	(51)	51	0
Stage 3 in Stage 2	-	-	-	0
Write-offs	-	-	(3.03)	(3.029)
Total expected credit losses as at 31 December 2021	195	36	11.822	12.053

3 1.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

				HRK`000
Working capital loans	Stage 1	Stage 2	Stage 3	In total
Gross book value on 31 December 2020	41.330	282	86.637	128.249
Movements:				
Stage 1 in Stage 2	(2.601)	2.601	-	0
Stage 1 in Stage 3	-	-	-	0
Stage 2 in Stage 3	-	(38)	38	0
Stage 2 in Stage 1	-	-	-	0
Stage 3 in Stage 1	-	-	-	0
Stage 3 in Stage 2	-	-	-	0
No change	104.116	(220)	(4.009)	99.887
Write-offs	-	-	(12.853)	(12.853)
Total gross book value as of December 31, 2021	142.845	2.625	69.813	215.283

				HRK`000
Working capital loans	Stage 1	Stage 2	Stage 3	In total
Expected credit losses as at 31 December 2020	657	12	76.014	76.683
Movements:	(23)	23	-	-
Stage 1 in Stage 2	-	-	-	-
Stage 1 in Stage 3	-	-	-	-
Stage 2 in Stage 1	-	-	-	-
Stage 3 in Stage 1	229	(11)	-	218
PD / LGD / EAD changes (Note 8)	(23)	23	-	-
Changes in assumptions and methodology (Note 8)	-	-	(538)	(538)
Exchange rate differences and other movements	-	-	-	-
Total net impact on profit for the year	206	12	(538)	(320)
Other developments without impact on profit for the year	-	-	-	-
Movements:				
Stage 2 in Stage 3	-	(1)	1	-
Stage 3 in Stage 2	-	-	-	-
Write-offs	-	-	(12.853)	(12.853)
Total expected credit losses as at 31 December 2021	863	23	62.624	63.510

3 1.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

				HRK`000
	Stage 1	Stage 2	Stage 3	In total
Factoring				
Gross book value				
on 31 December 2020	31.893	28	2.310	34.231
Movements:				
Stage 1 in Stage 2	-	-	-	-
Stage 1 in Stage 3	-	-	-	-
Stage 2 in Stage 3	-	(29)	29	-
Stage 3 in Stage 1	-	-	-	-
Stage 2 in Stage 1	-	-	-	-
Stage 3 in Stage 2	-	-	-	-
No change	(23.556)	0	(18)	(23.574)
Write-offs	-	-	-	-
Total gross book value as of December 31, 2021	8.337	0	2.320	10.657

				HRK`000
	Stage 1	Stage 2	Stage 3	In total
Factoring				
Expected credit losses as at 31 December 2020	431	3	2.271	2.705
Movements:				
Stage 1 in Stage 2	-	-	-	0
Stage 1 in Stage 3	-	-	-	0
Stage 2 in Stage 1	-	-	-	0
Stage 3 in Stage 1	-	-	-	0
PD / LGD / EAD changes (Note 8)	(389)	26	-	(363)
Changes in assumptions and methodology (Note 8)	-	-	20	20
Exchange rate differences and other movements	-	-	-	0
Total net impact on profit for the year	(389)	26	20	(343)
Other developments without impact on profit for the year	-	-	-	-
Movements:				
Stage 2 in Stage 3	-	(29)	29	0
Stage 3 in Stage 2	-	-	-	0
Write-offs	-	-	-	0
Total expected credit losses as at 31 December 2021	42	0	2.320	2.362

3 1.1. Credit risk (continued)

31.1.5. Loans and advances (continued)

	Stage 1	Stage 2	Stage 3	HRK`000 In total
Other loans to legal entities				
Gross book value on 31 December 2020	52.609	159	39.782	92.550
Movements:	-)	-	-	0
Stage 1 in Stage 2	(346)	346	-	0
Stage 1 in Stage 3	(10)	-	10	0
Stage 2 in Stage 3	-	(154)	154	0
Stage 2 in Stage 1	-	-	-	0
Stage 3 in Stage 1	-	-	-	0
Stage 3 in Stage 2	-	-	-)	-
No change	19.765	1.039	(63)	20.741
Write-offs	-	-	(8.733)	(8.733)
Total gross book value as of December 31, 2021	72.018	1.390	31.150	104.558

	Stage 1	Stage 2	Stage 3	HRK`000 In total
Other loans to legal entities				
Expected credit losses as at 31 December 2020	836	6	36.091	36.933
Movements:				
Stage 1 in Stage 2	(2)	2	-	0
Stage 1 in Stage 3	(3)	-	3	0
Stage 2 in Stage 1	-	-	-	0
Stage 3 in Stage 1	-	-	-	0
PD / LGD / EAD changes (Note 8)	(397)	12	-	(385)
Changes in assumptions and methodology (Note 8)	-	-	1.044	1.044
Exchange rate differences and other movements	-	-	-	0
Total net impact on profit for the year	(402)	14	1.047	658
Other developments without impact on profit for the year	-	-	-	-
Movements:				
Stage 2 in Stage 3	-	(6)	6	0
Stage 3 in Stage 2	-	-	-	0
Write-offs	-	-	(8,733)	(8,733)
Total expected credit losses as at 31 December 2021	434	14	28.411	28.859

3 1.1. Credit risk (continued)

31.1.6. Foreclosed assets

Foreclosed assets are sold as soon as possible, and receipts are used to reduce unpaid debts.

31.1.7. Concentration of financial asset risk with credit risk exposure

(a) Geographical sectors

The following table shows the Bank's exposure to credit risk in the carrying amounts in the categories by geographical area as at 31 December 2021. For the purposes of this table, the Bank has allocated exposures to regions according to the countries where the clients are headquartered.

	Croatia HRK'000	European Union HRK'000	Other countries HRK'000	In total HRK'000
Cash in hand and in bank accounts	112.824	12.006	685	125.515
Reserve obligation with the Croatian National Bank	68.507	0	0	68.507
Placements with banks	1.022	0	0	1.022
Loans and advances to customers	1.187.792	374	0	1.188.165
Financial assets at fair value through other comprehensive income	444	118.325	3.981	122.750
Other assets	11.420	10	0	11.431
As of December 31, 2021.	1.382.009	130.715	4.666	1.517.390
As of December 31, 2020	1.182.860	148.347	702	1.331.909

(b) Business sectors

The following table shows the Bank's exposure to credit risk in the carrying amounts in the categories according to the economic sectors of the client's business.

	Financial institutions HRK'000	Production HRK'000	Real estate HRK'000	Wholesale and retail HRK'000	Public sector HRK'000	Other business sectors HRK'000	Citizens HRK'000	In total HRK'000
Placements with banks	1.022	-	-	-	-	-	-	1.022
Loans and advances to customers	7.332	67.000	48.524	41.784	8.441	62.687	952.397	1.188.165
Assets at fair value through profit or loss	122.609	-	141	-	-	-	-	122.750
Other assets	2.858	22	95	53	7.828	348	227	11.431
As of December 31, 2021.	133.821	67.022	48.760	41.837	16.269	63.035	952.624	1.323.368
As of December 31, 2020	153.865	34.581	24.922	29.625	17.962	35.603	878.842	1.175.400

3 2. Market risk

The Bank is exposed to market risks, which are the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity financial instruments and are all exposed to general and specific market movements and changes in the level of fluctuations in market rates or prices, such as interest rates, credit margins, foreign exchange rates and equity prices. . The Bank categorizes market risk exposures into a trading portfolio or a non-trading portfolio .

Market risks arising from trading and non-trading activities fall within the scope of the Bank's Treasury sector. Reports are regularly submitted to the management and directors / managers of each business unit.

Trading portfolios include positions that arise from market transactions where the Bank acts as a principal with clients or with the market.

-trading portfolios are primarily based on the management of interest rates on retail and commercial banking assets and liabilities of the company. Non -trading portfolios also consist of currency risk and equity risk arising from the Bank's held-to-maturity investments that are available for sale.

Reconciliation and controlled non-adjustment of maturities and interest rates of assets and liabilities are important data for the Bank's Management Board. It is not uncommon for banks to have full compliance because business transactions often have uncertain deadlines and are different. Mismatched items can potentially increase profitability, but also increase the risk of loss.

The maturity of assets and liabilities, as well as the ability to replace, at an acceptable cost, interest-bearing liabilities at maturity, are important factors in assessing the Bank's liquidity and its exposure to changes in interest rates and exchange rates.

The liquidity required to pay amounts on guarantees and letters of credit on demand is significantly less than the amount of the commitment because the Bank does not generally expect a third party to withdraw amounts under contracts. The total contractual amount of credit commitments at the balance sheet date does not necessarily represent the future cash flows required because many of the commitments will expire or be terminated without the need to finance them.

3 2.1. Currency risk

The Bank is exposed to the effects of fluctuations in foreign exchange rates on its financial position and cash flows. The Bank manages currency risk by setting principles and limits for exposure to foreign currencies and monitoring exposures in relation to limits. The Bank directs its business activities primarily by trying to minimize the mismatch between assets and liabilities denominated in foreign currency or with a currency clause, maintaining regular daily operations within the limits of daily potential losses. The parameters are regularly reviewed in accordance with fluctuations in foreign exchange rates and correlations between currencies.

The table below summarizes the Bank's exposure to currency risk as at 31 December. The table shows the Bank's financial instruments in carrying amounts in the categories by currency:

Currency risk concentrations - on-balance sheet and off-balance sheet financial instruments

	HRK	EUR	USD	Other currencies	In total
	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000
Situation on 31 December 2020					
Assets					
Cash in hand and in bank accounts	49.845	37.054	1.070	7.803	92.772
Reserve requirement with the CNB	60.737	-	-	-	60.737
Placements with banks	-	1.024	-	-	1.024
Loans and advances to customers	264.500	751.949	378	-	1.016.827
Financial assets at fair value through other comprehensive income	444	136.898	3.458	-	140.800
Other assets	16.734	15	-	-	16.749
Total financial assets	392.260	926.940	4.906	7.803	1.331.909
Obligations					
Customer deposits	242.445	902.229	4.904	7.847	1.157.425
Liabilities to banks	82	2.009	-	-	2.091
Hybrid instruments	-	40.274	-	-	40.274
Lease obligations	4.879	-	-	-	4.879
Other liabilities	17.900	240	-	-	18.140
Total financial liabilities	265.306	944.752	4.904	7.847	1.222.809
Net balance sheet mismatch	126.955	(17.812)	2	(44)	109.101
Credit commitments	10.744	35	-	-	10.779

3 2.1. Currency risk (continued)

	HRK	EUR	USD	Other currencies	In total
	HRK`000	HRK`000	HRK`000	HRK`000	HRK`000
Situation on 31 December 2021					
Assets					
Cash in hand and in bank accounts	52.223	57.079	3.589	12.623	125.515
Reserve requirement with the CNB	68.507	-	-	-	68,507
Placements with banks	-	1.022	-	-	1.022
Loans and advances to customers	277.464	910.702	-	-	1.188.165
Financial assets at fair value through other comprehensive income	444	118.728	3.578	-	122.750
Other assets	11.420	10	-	-	11.431
Total financial assets	410.058	1.087.541	7.167	12.623	1.517.390
Obligations					
Customer deposits	228.878	1.065.549	7.161	12.663	1.314.251
Liabilities to banks	297	6.221	-	-	6.518
Hybrid instruments	-	34.667	-	-	34.667
Lease obligations	4.012	-	-	-	4.012
Other liabilities	20.174	95	-	-	20.269
Total financial liabilities	253.361	1.106.532	7.161	12.663	1.379.717
Net balance sheet mismatch	156.698	(18.992)	6	(40)	137.672
Credit commitments	12.035	3.402	-	-	15.437

3 2.2. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing interest rates on fair value and cash flow risks. Interest margins can increase as a result of such changes, but they can also reduce losses in the event of unexpected changes. The Management Board sets limits on the level of interest rate mismatch that may exist, which is monitored daily in the Treasury Department. The table below summarizes the Bank's exposure to interest rate risk. The table shows the bank's assets and liabilities at book value, classified into categories according to the contractual change in price or maturity, depending on the maturity.

	Up to 1 month HRK'000	From 1 to 3 months HRK'000	From 3 to 12 months HRK'000	From 1 to 3 years HRK'000	Above 3 years HRK'000	Interest free HRK'000	In total HRK'000
Situation on 31 December 2020							
Assets							
Cash in hand and in bank accounts	-	-	-	-	-	95.772	95.772
Reserve requirement with the CNB	-	-	-	-	-	60.737	60.737
Placements with banks	-	-	-	-	-	1.024	1.024
Loans and advances to customers	69.531	26.044	82.758	202.226	636.267	-	1.016.826
Financial assets at fair value through other comprehensive income	1.231	-	18.959	3.902	116.265	444	140.801
Other assets	-	-	-	-	-	16.749	16.749
Total financial assets	70.762	26.044	101.717	206.128	752.532	174.726	1.331.909
Obligations							
Customer deposits	171.238	98.936	262.570	344.181	134.663	145.837	1.157.425
Liabilities to banks	128	80	347	790	231	514	2.091
Hybrid instruments	-	-	5.464	9.760	25.050	-	40.274
Lease obligations	-	-	-	-	4.879	-	4.879
Other liabilities	620	130	83	6	1	17.300	18.140
Total financial liabilities	171.986	99.146	268.464	354.737	164.824	163.651	1.222.809
Net balance sheet mismatch	(101.226)	(73.102)	(166.747)	(148.609)	587.708	11.075	109.100

3 2.2. Interest rate risk (continued)

	Up to 1 month HRK'000	From 1 to 3 months HRK'000	From 3 to 12 months HRK'000	From 1 to 3 years HRK'000	Above 3 years HRK'000	Interest free HRK'000	In total HRK'000
Situation on 31 December 2021							
Assets							
Cash in hand and in bank accounts	-	-	-	-	-	125.515	125.515
Reserve requirement with the CNB	-	-	-	-	-	68.507	68.507
Placements with banks	-	-	-	-	-	1.022	1.022
Loans and advances to customers	61.644	21.126	109.821	263.841	730.014	1.719	1.188.165
Financial assets at fair value through other comprehensive income	1.299	3.782	0	40.142	77.084	444	122.750
Other assets	-	-	-	-	-	11.431	11.431
Total financial assets	62.943	24.908	109.821	303.983	807.098	208.638	1.517.391
Obligations							
Customer deposits	194.253	143.602	342.335	323.573	154.627	155.861	1.314.251
Liabilities to banks	36	80	346	576	159	5.321	6.518
Hybrid instruments	9.734	-	-	15.198	9.734	-	34.667
Lease obligations	-	-	-	-	4.012	-	4.012
Other liabilities	767	9	22	2	1	19.469	20.269
Total financial liabilities	204.790	143.691	342.703	339.349	168,533	180.651	1.379.717
Net balance sheet mismatch	(141.846)	(118.784)	(232.882)	(35.364)	638.565	27.987	137.674

32.3. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations when they fall due and replace funds when they are withdrawn. The consequence of this may be the impossibility of settling payment obligations to depositors, ie settling credit obligations.

The Bank is exposed to daily payments of call amounts, which it settles with cash resources consisting of overnight deposits, current account funds, maturing deposits, loan withdrawals and other call amounts. The Bank does not maintain cash resources to cover all of these needs, as experience has shown that the amount of reinvestment of maturing funds can be predicted with great reliability. The Bank manages liquidity reserves on a daily basis, ensuring that the Bank meets the needs of its clients.

32.3.1. Access to finance

Liquidity sources are regularly reviewed by a separate team in the Bank's Treasury to maintain diversity by currency, geographic area, donor, product and time period.

3 2.3.2 Non-derivative cash flows

The table below shows the cash flows that the Bank must pay on behalf of its financial liabilities to the remaining contractual maturities at the balance sheet date.

December 31, 2020	Up to 1 month	From 1-3 months	From 3- 12 months	From 1-3 years	Above 3 years	In total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Customer deposits	316.917	98.964	262.569	344.181	134.793	1.157.425
Liabilities to banks	642	81	347	790	231	2.091
Hybrid instruments	-	-	5.464	9.760	25.050	40.274
Lease obligations	-	-	-	-	4.879	4.879
Other liabilities	15.021	3.029	83	6	1	18.140
Total liabilities (agreed maturity dates)	332.580	102.074	268.463	354,737	164.954	1.222.809
Total liabilities for unused loans (expected due dates)	1.505	2.003	6.259	449	100	10.316
December 31, 2021	Up to 1 month	From 1-3 months	From 3- 12 months	From 1-3 years	Above 3 years	In total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Customer deposits	349.984	143.602	342.335	323.573	154.757	1.314.251
Liabilities to banks	5.357	80	346	576	159	6.518
Hybrid instruments	9.734	0	0	15.198	9.735	34.667
Lease obligations	0	0	0	0	4.012	4.012
Other liabilities	16.854	3.390	22	2	1	20.269
Total liabilities (agreed maturity dates)	381.929	147.072	342.703	339.349	168.664	1.379.717
Total liabilities for unused loans (expected due dates)	5.721	2.349	6.701	566	100	15.437

Assets available to settle all liabilities and to cover outstanding loans include cash, central bank accounts, pending items, and treasury and commercial papers and bills of exchange, loans and advances to banks, and loans and advances to customers. In the ordinary course of business, a certain number of customer loans with a contractual repayment period of one year will be extended. The bank would also be able to settle unforeseen cash outflows by selling securities and accessing additional sources of funding.

32.3.3. Off-balance sheet items

(a) Credit commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that oblige it to lend to customers and other financial instruments (Note 29) are shown in the table below.

(b) Other financial instruments

Other financial instruments (Note 29) are also presented below based on the earliest contractual maturity date.

	Less than a year	From 1 to 3 years	More than 3 years	In total
	HRK`000	HRK`000	HRK`000	HRK`000
December 31, 2020				
Credit commitments	9.766	450	100	10.316
Guarantees, letters of credit and more	464	-	-	464
In total	10.230	450	100	10.780
December 31, 2021				
Credit commitments	14.372	665	-	15.037
Guarantees, letters of credit and more	400	-	-	400
In total	14.772	665	-	15.437

Reconciliation and controlled non-adjustment of maturities and interest rates of assets and liabilities represent significant data for the Bank's Management Board. It is not uncommon for banks to have full compliance, as business transactions often have uncertain deadlines and are different. Mismatched items can potentially increase profitability, but also increase the risk of loss.

The maturity of assets and liabilities, as well as the ability to replace, at an acceptable cost, interest-bearing liabilities at maturity, are important factors in assessing the Bank's liquidity and its exposure to changes in interest rates and exchange rates.

The liquidity required to pay amounts on guarantees and letters of credit on demand is significantly less than the amount of the commitment because the Bank does not generally expect a third party to withdraw amounts under contracts. The total contractual amount of credit commitments at the balance sheet date does not necessarily represent the future cash flows required because many of the commitments will expire or be terminated without the need to finance them.

3 2.4. Fair value of financial assets and liabilities

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is based on quoted market prices if available. However, market prices for a significant portion of the Bank's financial instruments are not available. In these circumstances, fair value is estimated using discounted cash flow models or other appropriate pricing techniques. Changes in the assumptions on which estimates are based, including discount rates and estimated future cash flows, significantly affect estimates. For this reason, the estimated fair market values do not necessarily have to be realized by selling the financial instrument at the present time.

The Bank uses the following structure to determine the fair value of financial instruments using the valuation technique:

- level 1: quoted (unadjusted) prices in active markets for assets and liabilities
- Level 2: other techniques where all data that have a significant effect on fair value are visible on the market, directly or indirectly
- Level 3: Techniques in which all data that significantly affect the determined fair value are not discernible from visible market data

	12/31/2021			12/31/2020		
	Level 1 HRK`000	Level 2 HRK`000	In total HRK`000	Level 1 HRK`000	Level 2 HRK`000	In total HRK`000
Bonds	122.310	-	122.310	140.360	-	140.360
Stock	303	141	444	303	141	444
	122.613	141	122.754	140.663	141	140.804

3 2.4. Fair value of financial assets and liabilities (continued)

The table below summarizes the carrying amounts and fair values of financial assets and liabilities not included in the Bank's balance sheet at fair value.

	Book value		Fair value	
	2021	2020	2021	2020
	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets				
Placements with banks	1.022	1.024	1.022	1.024
Loans and advances to customers	1.188.165	1.016.827	1.188.165	1.016.827
Other assets	11.431	16.749	11.431	16.749
Total financial assets	1.200.618	1.034.600	1.200.618	1.034.600
Financial obligations				
Customer deposits	1.314.251	1.157.425	1.314.251	1.157.425
Liabilities to banks	6.518	2.091	6.518	2.091
Hybrid instruments	34.667	40.274	34.667	40.274
Lease obligations	4.012	4.879	4.012	4.879
Other liabilities	20.269	18.140	20.269	18.140
Total financial liabilities	1.379.717	1.222.809	1.379.717	1.222.809

The following methods and assumptions were used in estimating the fair value of the Bank's financial instruments:

(a) Cash and balances with the central bank

Due to short maturities of money and accounts with banks, required reserves with the Croatian National Bank, placements and loans to other banks, deposits of banks, deposits of companies and similar entities, the Management Board estimates that the book value of these financial instruments does not differ significantly from their fair value.

(b) Held-to-maturity financial assets

The fair values of held-to-maturity securities are calculated based on quoted market prices.

(c) Receivables from banks

The estimated fair value of receivables from banks maturing within 180 days approximates their carrying amounts. The fair value of other receivables from banks is estimated based on a discounted cash flow analysis using interest rates currently offered for investments under similar conditions (market rates adjusted for credit risk). The fair value of receivables that cannot be collected on a regular basis is estimated based on a discounted cash flow analysis for the collateral in question. Impairment is not taken into account when calculating fair value.

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

(d) Loans and receivables from customers

The fair value of variable rate loans, the price of which is regularly reviewed and for which no significant changes in credit risk have been observed, are generally close to their carrying amounts. The fair value of fixed interest rate loans is estimated based on a discounted cash flow analysis by applying current interest rates to loans that are subject to similar terms or have similar credit characteristics. The fair value of loans to customers who do not repay their obligations is estimated based on a discounted cash flow analysis or the estimated value of the collateral for the loan in question. Fixed rate loans represent only a fraction of the total carrying amount, and therefore the fair value of total loans and receivables approximates the carrying amounts at the balance sheet date. Value adjustments are not taken into account in calculating fair value.

(e) Liabilities to other banks and customers

The fair value of time deposits maturing on demand represents the carrying amount of the liability payable at the balance sheet date. The fair value of time deposits with variable interest rates approximates the carrying amount at the balance sheet date. The fair value of fixed interest rate deposits is estimated by discounting future cash flows using interest rates currently applied to deposits with similar remaining maturities.

32.5. Capital management

The Bank's objectives in capital management, which is a broader concept than 'capital' presented in the balance sheet, are as follows:

- compliance with capital requirements set by the central bank;
- maintaining the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other shareholders; and
- maintaining a strong capital foundation that could support business development,

In accordance with the regulations governing this area of monitoring the Bank's operations, the Bank is obliged to submit to the Croatian National Bank reports on capital adequacy and coverage of capital requirements with capital on a quarterly basis.

Based on the capital requirements of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 1095/2010. 648/2012, the minimum rate of regulatory capital that the Bank must maintain is 8% while maintaining a level of capital sufficient to cover the capital requirements of the protective layer for capital preservation (2.5%) and the protective layer for structural systemic risk (1.5 %).

3 2 .5. Capital management (continued)

The table below summarizes the composition of regulatory capital and the Bank's indicators as at 31 December 2021 and 2020.

	12/31/2021 HRK'000	12/31/2020 HRK 000
Regulatory capital		
Base capital	106.924	106.924
Supplementary capital	15.321	22.471
Deductible items of regulatory capital	40.977	31.934
Regulatory capital	163.222	161.329
Risk exposure structure		
Credit risk weighted exposure amount	820.914	783.421
Amount of risk exposure for market risks	265	601
Amount of risk exposure for operational risk	135.395	130.349
Total amount of risk exposure	956.574	914.371
Structure of capital requirements		
Capital requirement for total capital ratio (8%)	76.526	73.150
Capital protection buffer (2.5%)	23.914	22.859
Structural systemic risk buffer (1.5%)	14.349	13.716
Capital requirements for the total capital ratio (2021: 3.3%, 2020: 3.3%):	31.567	30.174
Total capital requirements	146.356	139.899
Capital adequacy	17.06%	17.64%

33. Events after the balance sheet date

no significant events after the reporting period .

The war in Ukraine, as well as the imposition of sanctions on Russia, will also affect the banking system in the Republic of Croatia. The Bank has conducted an analysis of the impact of sanctions and the overall situation on the Bank's operations in order to ensure and establish operational operations in a timely manner so as to minimize the risks that may arise from them . natural person , and our corporate clients are not connected to the market of goods and services with war- torn countries. Also , the Bank has increased activities in the field of raising the awareness of all employees, and additional technical measures related to the control of Internet traffic from Russia, Belarus and Ukraine have been introduced. In order to ensure compliance with international sanctions , the Bank has introduced increased controls in the business segments affected by sanctions, so that sanctions lists are implemented in our blacklist application, and for all clients who are on these lists block and freeze all assets and assets.

Supplementary reports for the Croatian National Bank

Annex 1

for the period from 1 January to 31 December 20 21 . years

Supplementary reports for the Croatian National Bank

Based on the Decision on the structure and content of the annual financial statements of credit institutions (Official Gazette 42/2018 and 122/2020), the forms required by the Croatian National Bank as at 31 December 2021 and for the year are presented below. which then ended.

for the period from 1 January to 31 December 20 21 . years

Račun dobiti i gubitka
za razdoblje 01.01.2021. do 31.12.2021.

Obrazac
BAN-RDG

Obveznik: BANKA KOVANICA DD				
Naziv pozicije	AOP oznaka	Rbr. bilješke	Prethodna godina	Tekuća godina
1	2	3	4	5
1. Kamatni prihodi	069		73.754.183	77.523.581
2. Kamatni rashodi	070		14.384.698	13.436.243
3. Rashodi od temeljnoga kapitala koji se vraća na zahtjev	071		0	0
4. Prihodi od dividende	072		0	0
5. Prihodi od naknada i provizija	073		8.578.044	10.908.730
6. Rashodi od naknada i provizija	074		3.133.619	3.536.536
7. Dobici ili gubici po prestanku priznavanja financijske imovine i financijskih obveza koje nisu mjerene po fer vrijednosti kroz dobit ili gubitak, neto	075		1.707.550	-2.239
8. Dobici ili gubici po financijskoj imovini i financijskim obvezama koje se drže radi trgovanja, neto	076		865.342	1.604.179
9. Dobici ili gubici po financijskoj imovini kojom se ne trguje koja se mjeri po fer vrijednosti kroz dobit ili gubitak, neto	077		0	0
10. Dobici ili gubici po financijskoj imovini i financijskim obvezama po fer vrijednosti kroz dobit ili gubitak, neto	078		0	0
11. Dobici ili gubici od računovodstva zaštite, neto	079		0	0
12. Tečajne razlike (dobit ili gubitak), neto	080		227.362	319.090
13. Dobici ili gubici po prestanku priznavanja nefinancijske imovine, neto	081		1.539.158	594.121
14. Ostali prihodi iz poslovanja	082		0	2.498.733
15. Ostali rashodi iz poslovanja	083		0	172.315
16. UKUPNI PRIHODI IZ POSLOVANJA, NETO (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 do 082 - 083)	084		69.153.322	76.301.101
17. Administrativni rashodi	085		33.089.070	34.851.520
18. Doprinosi u novcu sanacijskim odborima i sustavima osiguranja depozita	086		3.613.269	8.179
19. Amortizacija	087		3.094.014	2.814.987
20. Dobici ili gubici zbog promjena, neto	088		0	0
21. Rezervacije ili ukidanje rezervacija	089		-384.554	52.370
22. Umanjenje vrijednosti ili ukidanje umanjenja vrijednosti financijske imovine koja nije mjerena po fer vrijednosti kroz dobit ili gubitak	090		18.063.769	10.985.631
23. Umanjenje vrijednosti ili ukidanje umanjenja vrijednosti ulaganja u društva kćeri, zajedničke pothvate i pridružena društva	091		0	0
24. Umanjenje vrijednosti ili ukidanje umanjenja vrijednosti nefinancijske imovine	092		175.165	0
25. Negativan goodwill priznat u dobiti ili gubitku	093		0	0
26. Udjel dobiti ili gubitka od ulaganja u društva kćeri, zajedničke pothvate i pridružena društva obračunatih metodom udjela	094		0	0
27. Dobit ili gubitak od dugotrajne imovine i grupe za otuđenje klasificirane kao namijenjene za prodaju koje nisu kvalificirane kao poslovanje koje se neće nastaviti	095		612.517	62
28. DOBIT ILI GUBITAK PRIJE OPOREZIVANJA IZ POSLOVANJA KOJE ČE SE NASTAVITI (AOP 084 - 085 do 087 + 088 - 089 do 092 + 093 do 095)	096		12.115.106	27.588.476
29. Porezni rashodi ili prihodi povezani s dobiti ili gubitkom iz poslovanja koje će se nastaviti	097		3.790.869	5.515.874
30. DOBIT ILI GUBITAK NAKON OPOREZIVANJA IZ POSLOVANJA KOJE ČE SE NASTAVITI (AOP 096 - 097)	098		8.324.237	22.072.602
31. Dobit ili gubitak nakon oporezivanja iz poslovanja koje se neće nastaviti (AOP 100 - 101)	099		2.888.350	0
31.1. Dobit ili gubitak prije oporezivanja iz poslovanja koje se neće nastaviti	100		2.888.350	0
31.2. Porezni rashodi ili prihodi povezani s poslovanjem koje se neće nastaviti	101		0	0
32. DOBIT ILI GUBITAK TEKUĆE GODINE (AOP 098 + 099; 103 + 104)	102		11.212.587	22.072.602
33. Pripada manjinskom udjelu (nekontrolirajući udjeli)	103		0	0
34. Pripada vlasnicima matičnog društva	104		0	0
IZVJEŠTAJ O OSTALOJ SVEOBUHATNOJ DOBITI				
1. Dobit ili gubitak tekuće godine (AOP 102)	105		11.212.587	22.072.602
2. Ostala sveobuhvatna dobit (AOP 107 + 119)	106		321.511	-709.978
2.1. Stavke koje neće biti reklasificirane u dobit ili gubitak (AOP 108 do 114 + 117 + 118)	107		0	0
2.1.1. Materijalna imovina	108		0	0
2.1.2. Nematerijalna imovina	109		0	0
2.1.3. Aktuarski dobici ili gubici na mirovinskim planovima pod pokroviteljstvom poslodavca	110		0	0
2.1.4. Dugotrajna imovina i grupe za otuđenje namijenjene za prodaju	111		0	0
2.1.5. Udjel ostalih priznatih prihoda i rashoda od subjekata koji se obračunava metodom udjela	112		0	0
2.1.6. Promjene fer vrijednosti vlasničkih instrumenata mjerenih po fer vrijednosti kroz ostalu sveobuhvatnu dobit	113		0	0
2.1.7. Dobici ili gubici od računovodstva zaštite vlasničkih instrumenata mjerenih po fer vrijednosti kroz ostalu sveobuhvatnu dobit, neto	114		0	0
2.1.8. Promjene fer vrijednosti vlasničkih instrumenata mjerenih po fer vrijednosti kroz ostalu sveobuhvatnu dobit (zaštićena stavka)	115		0	0
2.1.9. Promjene fer vrijednosti vlasničkih instrumenata mjerenih po fer vrijednosti kroz ostalu sveobuhvatnu dobit (instrument zaštite)	116		0	0
2.1.10. Promjene fer vrijednosti financijskih obveza mjerenih po fer vrijednosti kroz dobit ili gubitak koje se pripisuju promjenama u kreditnom riziku	117		0	0
2.1.11. Porezna dobit koji se odnosi na stavke koje neće biti reklasificirane	118		0	0
2.2. Stavke koje je moguće reklasificirati u dobit ili gubitak (AOP 120 do 127)	119		321.511	-709.978
2.2.1. Zaštita neto ulaganja u inozemno poslovanje (efektivni udjel)	120		0	0
2.2.2. Preračunavanje stranih valuta	121		0	0
2.2.3. Zaštite novčanih tokova (efektivni udjel)	122		0	0
2.2.4. Instrumenti zaštite od rizika (elementi koji nisu određeni)	123		0	0
2.2.5. Dužnički instrumenti po fer vrijednosti kroz ostalu sveobuhvatnu dobit	124		321.511	-709.978
2.2.6. Dugotrajna imovina i grupe za otuđenje namijenjene za prodaju	125		0	0
2.2.7. Udjel ostalih priznatih prihoda i rashoda od ulaganja u društva kćeri, zajedničke pothvate i pridružena društva	126		0	0
2.2.8. Porez na dobit koji se odnosi na stavke koje je moguće reklasificirati u dobit ili gubitak	127		0	0
3. Ukupna sveobuhvatna dobit tekuće godine (AOP 105 + 106 i AOP 129 + 130)	128		11.534.098	21.362.624
4. Pripada manjinskom udjelu (nekontrolirajući udjel)	129		0	0
5. Pripada vlasnicima matičnog društva	130		0	0

for the period from 1 January to 31 December 20 21 . years

Izveštaj o financijskom položaju (Bilanca)
stanje na dan 31.12.2021.Obrazac
BAN-BIL

Obveznik: ; BANKA KOVANICA DD				
Naziv pozicije	AOP oznaka	Rbr. bilješke	Prethodna godina (neto)	Tekuća godina (neto)
1	2	3	4	5
Imovina				
1. Novčana sredstva, novčana potraživanja od središnjih banaka i ostali depoziti po viđenju (AOP 002 do 004)	001		95.771.680	125.514.544
1.1. Novac u blagajni	002		12.116.792	12.510.370
1.2. Novčana potraživanja od središnjih banaka	003		74.275.713	96.315.599
1.3. Ostali depoziti po viđenju	004		9.379.175	16.688.575
2. Financijska imovina koja se drži radi trgovanja (AOP 006 do 009)	005		0	0
2.1. Izvedenice	006		0	0
2.2. Vlasnički instrumenti	007		0	0
2.3. Dužnički vrijednosni papiri	008		0	0
2.4. Krediti i predujmovi	009		0	0
3. Financijska imovina kojom se ne trguje koja se obvezno mjeri po fer vrijednosti kroz dobit ili gubitak (AOP 011 do 013)	010		302.623	302.623
3.1. Vlasnički instrumenti	011		302.623	302.623
3.2. Dužnički vrijednosni papiri	012		0	0
3.3. Krediti i predujmovi	013		0	0
4. Financijska imovina po fer vrijednosti kroz dobit ili gubitak (AOP 015 + 016)	014		0	0
4.2. Dužnički vrijednosni papiri	015		0	0
4.3. Krediti i predujmovi	016		0	0
5. Financijska imovina po fer vrijednosti kroz ostalu sveobuhvatnu dobit (AOP 018 do 020)	017		140.356.606	122.306.428
5.1. Vlasnički instrumenti	018		0	0
5.1. Dužnički vrijednosni papiri	019		140.194.455	122.216.961
5.2. Krediti i predujmovi	020		162.151	89.467
6. Financijska imovina po amortiziranom trošku (AOP 022+023)	021		1.090.877.738	1.266.777.221
6.1. Dužnički vrijednosni papiri	022		1.291.396	0
6.2. Krediti i predujmovi	023		1.089.586.342	1.266.777.221
7. Izvedenice – računovodstvo zaštite	024		0	0
8. Promjene fer vrijednosti zaštićenih stavki u zaštiti portfelja od kamatnog rizika	025		0	0
9. Ulaganja u društva kćeri, zajedničke pothvate i pridružena društva	026		141.000	141.000
10. Materijalna imovina	027		33.419.477	26.595.116
11. Nematerijalna imovina	028		939.949	911.391
12. Porezna imovina	029		888.022	89.747
13. Ostala imovina	030		3.571.210	2.258.003
14. Dugotrajna imovina i grupe za otuđenje klasificirane kao namijenjene za prodaju	031		356.000	
15. UKUPNA IMOVINA (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 do 031)	032		1.366.624.305	1.544.896.073
Obveze				
16. Financijske obveze koje se drže radi trgovanja (AOP 034 do 038)	033		0	0
16.1. Izvedenice	034		0	0
16.2. Kratke pozicije	035		0	0
16.3. Depoziti	036		0	0
16.4. Izdani dužnički vrijednosni papiri	037		0	0
16.5. Ostale financijske obveze	038		0	0
17. Financijske obveze po fer vrijednosti kroz dobit ili gubitak (AOP 040 do 042)	039		0	0
17.1. Depoziti	040		0	0
17.2. Izdani dužnički vrijednosni papiri	041		0	0
17.3. Ostale financijske obveze	042		0	0
18. Financijske obveze mjerene po amortiziranom trošku (AOP 044 do 046)	043		1.205.264.140	1.360.186.553
18.1. Depoziti	044		1.200.375.154	1.356.172.853
18.2. Izdani dužnički vrijednosni papiri	045		0	0
18.3. Ostale financijske obveze	046		4.888.986	4.013.700
19. Izvedenice – računovodstvo zaštite	047		0	0
20. Promjene fer vrijednosti zaštićenih stavki kod zaštite portfelja od kamatnog rizika	048		0	0
21. Rezervacije	049		569.829	748.718
22. Porezne obveze	050		3.130.791	3.453.490
23. Temeljni kapital koji se vraća na zahtjev	051		0	0
24. Ostale obveze	052		13.843.259	15.328.401
25. Obveze uključene u grupe za otuđenje klasificirane kao namijenjene za prodaju	053		0	0
26. UKUPNE OBVEZE (AOP 033 + 039 + 043 + 047 do 053)	054		1.222.808.019	1.379.717.162
Kapital				
27. Temeljni kapital	055		106.961.910	106.961.910
28. Premija na dionice	056		0	0
29. Izdani vlasnički instrumenti osim kapitala	057		0	0
30. Ostali vlasnički instrumenti	058		0	0
31. Akumulirana ostala sveobuhvatna dobit	059		2.423.145	1.713.167
32. Zadržana dobit	060		-10.356.723	855.865
33. Revalorizacijske rezerve	061		0	0
34. Ostale rezerve	062		33.613.671	33.613.671
35. Trezorske dionice	063		-38.304	-38.304
36. Dobit ili gubitak koji pripadaju vlasnicima matičnog društva	064		11.212.587	22.072.602
37. Dividende tijekom poslovne godine	065		0	0
38. Manjinski udjeli (nekontrolirajući udjeli)	066		0	0
39. UKUPNO KAPITAL (AOP 055 do 066)	067		143.816.286	165.178.911
40. UKUPNO OBVEZE I KAPITAL (AOP 054+067)	068		1.366.624.305	1.544.896.073

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IZVJEŠTAJ O NOVČANIM TOKOVIMA - Indirektna metoda u razdoblju 01.01.2021. do 31.12.2021.

Obrazac
BAN-NTI

Obveznik: _____; BANKA KOVANICA DD				
Naziv pozicije	AOP oznaka	Rbr. bilješke	Prethodna godina	Tekuća godina
1	2	3	4	5
Poslovne aktivnosti i usklađenja				
1. Dobit / gubitak prije oporezivanja	001		15.003.456	27.588.476
2. Umanjenja vrijednosti i rezerviranja	002		18.063.769	10.985.631
3. Amortizacija	003		3.094.014	2.814.987
4. Neto nerealizirana dobit/gubitak od financijske imovine i obveza po fer vrijednosti kroz RDG	004		0	0
5. Dobit/gubitak od prodaje materijalne imovine	005		2.151.675	592.007
6. Ostale nenovčane stavke	006		-3.790.869	-5.515.874
Promjene u imovini i obvezama iz poslovnih aktivnosti				
7. Sredstva kod HNB-a	007		-29.751.793	-22.039.886
8. Depoziti kod financijskih institucija i krediti financijskim institucijama	008		6.448.518	-7.309.400
9. Krediti i predujmovi ostalim komitentima	009		-20.855.446	-186.885.114
10. Vrijednosni papiri i drugi financijski instrumenti po fer vrijednosti kroz ostalu sveobuhvatnu dobit	010		579.752	3.165.545
11. Vrijednosni papiri i drugi financijski instrumenti koji se drže radi trgovanja	011		0	0
12. Vrijednosni papiri i drugi financijski instrumenti kojima se aktivno ne trguje, a vrednuju se prema fer vrijednosti kroz RDG	012		0	0
13. Vrijednosni papiri i drugi financijski instrumenti koji se obvezno vode po fer vrijednosti kroz račun dobiti i gubitka	013		0	0
14. Vrijednosni papiri i drugi financijski instrumenti koji se vode po amortiziranom trošku	014		0	0
15. Ostala imovina iz poslovnih aktivnosti	015		-1.499.119	2.111.482
Povećanje/smanjenje poslovnih obveza				
16. Depoziti od financijskih institucija	016		1.100.743	6.005.135
17. Transakcijski računi ostalih komitenata	017		6.072.188	13.901.981
18. Štedni depoziti ostalih komitenata	018		19.573.110	6.725.460
19. Oročeni depoziti ostalih komitenata	019		-15.200.592	134.186.794
20. Izvedene financijske obveze i ostale obveze kojima se trguje	020		0	0
21. Ostale obveze	021		1.037.159	5.777.599
22. Neplaćene kamate iz poslovnih aktivnosti	022		0	0
23. Primljene dividende iz poslovnih aktivnosti	023		0	0
24. Plaćene kamate iz poslovnih aktivnosti	024		0	0
25. Plaćeni porez na dobit	025		-1.627.668	-3.790.869
A) Neto novčani tokovi iz poslovnih aktivnosti (AOP 001 do 025)	026		398.897	-11.686.046
Ulagačke aktivnosti				
1. Primici od prodaje / plaćanja za kupnju/ materijalne i nematerijalne imovine	027		902.275	3.801.925
2. Primici od prodaje / plaćanja za kupnju/ ulaganja u društva kćeri, zajedničke pothvate i pridružena društva	028		0	0
3. Primici od naplate / plaćanja za kupnju/ vrijednosnih papira i drugih financijskih instrumenata iz ulagačkih aktivnosti	029		-2.468.494	14.884.633
4. Primljene dividende iz ulagačkih aktivnosti	030		0	0
5. Ostali primici / plaćanja/ iz ulagačkih aktivnosti	031		0	0
B) Neto novčani tokovi iz ulagačkih aktivnosti (AOP 027 do 031)	032		-1.566.219	18.686.558
Financijske aktivnosti				
1. Neto povećanje / smanjenje/ primljenih kredita iz financijskih aktivnosti	033		-1.966.208	-289.562
2. Neto povećanje / smanjenje/ izdanih dužničkih vrijednosnih papira	034		0	
3. Neto povećanje/smanjenje instrumenata dopunskoga kapitala	035		549.881	-5.607.395
4. Povećanje dioničkoga kapitala	036		0	0
5. Isplaćena dividenda	037		0	0
6. Ostali primici / plaćanja iz financijskih aktivnosti	038		321.510	-709.977
C) Neto novčani tokovi iz financijskih aktivnosti (AOP 033 do 038)	039		-1.094.817	-6.606.934
D) Neto povećanje / smanjenje novca i novčanih ekvivalenata (AOP 026+032+039)	040		-2.262.139	393.578
Novac i novčani ekvivalenti na početku godine	041		14.378.931	12.116.792
Učinak promjene tečaja stranih valuta na novac i novčane ekvivalente	042			
Novac i novčani ekvivalenti na kraju godine (AOP 040+041+042)	043		12.116.792	12.510.370

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for the period from 1 January to 31 December 20 21 . years

Annex 1

PROMJENE KAPITALA

za razdoblje od 01.01.2021. do 31.12.2021.

Obrazac
BAN-PK

Obrazac
BAN-PK

Obveznik: ; BANKA KOVANICA DD																
Opis pozicije	AOP oznaka	Rbr. bilješke	Raspodjeljivo imateljima kapitala matice											Manjinski udjel		Ukupno
			Kapital	Premija na dionice	Izdani vlasnički instrumenti osim kapitala	Ostali vlasnički udjeli	Akumulirane ostale sveobuhvatne dobiti	Zadržane dobiti	Revalorizacijske rezerve	Ostale rezerve	Trezorske dionice	Dobit / gubitak koji pripada vlasnicima matičnog društva	Dividende tijekom poslovne godine	Akumulirane ostale sveobuhvatne dobiti	Ostale stavke	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 do 16)
1. Početno stanje (prije prepravljanja)	01		106.961.910	0	0	0	2.423.145	-10.356.723	0	33.613.671	-38.304	11.212.587	0	0	0	143.816.286
2. Učinak ispravaka pogrešaka	02		0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Učinci promjena računovodstvenih politika	03		0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Početno stanje (tekuće razdoblje) (AOP 01 do 03)	04		106.961.910	0	0	0	2.423.145	-10.356.723	0	33.613.671	-38.304	11.212.587	0	0	0	143.816.286
5. Izdavanje redovnih dionica	05		0	0				0	0	0					0	0
6. Izdavanje povlaštenih dionica	06		0	0		0		0	0	0					0	0
7. Izdavanje ostalih vlasničkih instrumenata	07					0		0	0	0					0	0
8. Izvršavanje ili istek ostalih izdanih vlasničkih instrumenata	08					0		0	0	0					0	0
9. Pretvaranje dugovanja u vlasničke instrumente	09		0	0		0		0	0	0					0	0
10. Redukcija kapitala	10		0	0				0	0	0	0	0			0	0
11. Dividende	11		0	0		0		0	0	0	0		0		0	0
12. Kupnja trezorskih dionica	12							0	0	0	0			0	0	0
13. Prodaja ili poništenje trezorskih dionica	13							0	0	0	0			0	0	0
14. Reklasifikacija financijskih instrumenata iz vlasničkih instrumenata u obveze	14		0	0		0									0	0
15. Reklasifikacija financijskih instrumenata iz obveza u vlasničke instrumente	15		0	0		0									0	0
16. Prijenos između komponenata vlasničkih instrumenata	16					0	0	0	0	0		0	0	0	0	0
17. Povećanje ili smanjenje vlasničkih instrumenata kao posljedica poslovnih kombinacija	17		0	0		0		0	0	0	0				0	0
18. Plaćanja temeljena na dionicama	18		0	0						0					0	0
19. Ostalo povećanje ili smanjenje vlasničkih instrumenata	19					0	0	11.212.587	0	0	0	-11.212.587	0	0	0	0
20. Ukupna sveobuhvatna dobit tekuće godine	20						-709.978	0	0	0		22.072.602			0	21.362.624
21. Završna (tekuće razdoblje) (AOP 04 do 20)	21		106.961.910	0	0	0	1.713.167	855.864	0	33.613.671	-38.304	22.072.602	0	0	0	165.178.910

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Annex 2

for the Croatian National Bank

for the period from 1 January to 31 December 20 21 . years

	GFI-BAN	Yearly report	Differences
	HRK'000	HRK'000	HRK'000
Interest income	77.524	77.575	(51)
Interest expenses	(13.436)	(13.436)	-
Net interest income	64.088	64.139	(51)
Fee and commission income	10.909	10.909	-
Fees and commissions	(3.537)	(3.537)	-
Net income from fees and commissions	7.372	7.372	-
Dividend income	-	-	-
Profit / loss from trading activities	1.604	-	1.604
Result of non-traded assets that must be measured at fair value through profit or loss	-	-	-
Gains or losses on derecognition of financial assets and financial liabilities	(2)	(2)	-
Gain / loss from accrued exchange rate differences	319	1.923	(1.604)
Gain / loss on derecognition of non-financial assets	594	-	594
Other operating income	2.499	3.258	(759)
Other operating expenses	(172)	(685)	513
General administrative expenses and depreciation	(34.852)	(37.561)	2.709
Contributions in cash to resolution committees and deposit insurance schemes	(8)	-	(8)
Amortization	(2.815)	-	(2.815)
Reservations / Cancellation of reservations	(52)	-	(52)
Expenses on value adjustments and provisions for losses	(10.986)	(10.856)	(130)
Impairment of non-financial assets	-	-	-
Profit / loss on assets held for sale	-	-	-
Other income / expenses that will not continue	-	-	-
Profit / loss before taxes	27.588	27.588	-
Profit tax	(5.516)	(5.516)	-
Profit / loss for the current year	22.072	22.072	-

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Adjusting the Profit and Loss Account

Deviations of the positions of the Profit and Loss Account published in the annual report in relation to the structure and content prescribed by the CNB Decision refer to the following categories:

- the difference of HRK 52 thousand is interest income from previous years, which is presented in by decision of the CNB within other operating income, while in the annual financial report it is shown in interest income
- The difference of HRK 1,604 thousand arises from different treatment of foreign exchange differences based on foreign exchange purchases and sales, which in the annual report are presented in the position of net foreign exchange differences, and according to the CNB Decision are a separate item ;
- the difference of HRK 130 thousand arises from the different treatment of impairment of foreclosed assets in exchange for uncollected receivables, which are presented in the annual report in the position of administrative costs and revenues from the sale of these assets . The difference of HRK 594 thousand arises from different treatment of proceeds from the sale of acquired assets in exchange for uncollected receivables which are presented in the annual report in the position of other operating income, while according to the CNB Decision they are a separate item profit / loss. The difference of HRK 513 thousand according to the CNB decision is shown in general and administrative expenses, while in the annual financial report it is shown within other operating expenses. The difference of HRK 759 thousand according to the CNB decision is shown in general and administrative expenses, while in the annual financial report it is shown within other operating income.
- Depreciation is a separate item according to the CNB's decision, while in the annual financial report it is presented in administrative expenses (HRK 2,815 thousand);
- According to the decision of the CNB, the deposit insurance premium is a separate item, while in the annual financial report it is presented within other operating expenses (HRK 8 thousand);
- the difference of HRK 52 thousand relates to value adjustments on commitments that are, according to the CNB

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	GFI-BAN	Yearly report	Differences
	HRK'000	HRK'000	HRK'000
ASSETS			
Cash, receivables and other demand deposits	125.515	125.515	
Receivables from the CNB	-	68.507	(68.507)
Placements with banks	-	1.022	(1.022)
Financial assets at amortized cost	1.266.777	1.188.165	78.612
Financial assets by FV through OSD	122.306	122.750	(444)
Non-traded financial assets that are obligatorily measured by PV through RDG	303	-	303
Investments in subsidiaries, associates and joint ventures	141	-	141
Material property	26.595	13.494	13.101
Intangible assets	911	911	-
Non-current assets held for sale	-	13.101	(13.101)
Other assets	2.258	11.431	(9.173)
Tax assets	90	-	90
TOTAL ASSETS	1.544.896	1.544.896	-
LIABILITIES AND CAPITAL			
Financial liabilities measured at amortized cost	1.360.187	1.314.251	45.936
Liabilities to banks	-	6.518	(6.518)
Hybrid instruments	-	34.667	(34.667)
Lease obligations	-	4.012	(4.012)
Other liabilities	15.328	20.269	(4.941)
Reservations	749	-	749
Tax liabilities	3.453	-	3.453
TOTAL LIABILITIES	1.379.717	1.379.717	-
CAPITAL			
Share capital	106.962	106.962	-
Treasury shares	(38)	(38)	-
Capital gain	-	-	-
Profit / (loss) of the current year	22.072	22.072	-
Retained earnings / (loss)	856	856	-
Accumulated OSD	1.713	-	1.713
Statutory and other capital reserves	33.614	35.327	(1.713)
TOTAL CAPITAL	165.179	165.179	-
TOTAL LIABILITIES AND CAPITAL	1.544.896	1.544.896	-

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Balance adjustment

Deviations of balance sheet items published in the annual report in relation to the structure and content prescribed by the CNB Decision refer to the following categories:

- According to the annual report, loans to banks also include loans to banks in the amount of HRK 5,138 thousand, which according to the CNB standard are disclosed within financial assets at amortized cost;
- According to the annual report, placements with banks also include time deposits with banks in the amount of HRK 1,022 thousand, which according to the CNB standard are disclosed within financial assets at amortized cost;
- Receivables from the CNB (Reserve requirement) in the Annual Financial Report are a separate item of the balance sheet, while according to the CNB standard, the reserve requirement is presented within financial assets at amortized cost;
- Within financial assets under FV through OSD, the annual report shows investments in subsidiaries, associates and joint ventures in the amount of HRK 141 thousand, which according to the CNB Decision is a separate item of the balance sheet. The position of financial assets by FV through OSD according to the annual report was also increased by financial assets that are not traded and measured by FV through RDG in the amount of HRK 303 thousand;
- the amount of the difference of HRK 13,101 thousand in real estate plant and equipment relates to foreclosed assets for uncollected receivables, which according to the annual report are stated in the item non-current assets available for sale;
- tax assets in the amount of HRK 90 thousand in the annual financial report are stated within other assets and according to the CNB standard it is a separate asset item;
- the difference of HRK 9,173 thousand between other assets according to the annual report and the CNB standards relates to receivables for reimbursement of court costs and receivables from fees that are stated in the CNB standard in financial assets at amortized cost;
- Liabilities to banks according to the annual report include time and savings deposits of banks, leases and loans received from banks, while the same items according to the CNB standard are stated in the position of financial liabilities measured at amortized cost;
- according to the annual report, hybrid instruments are a separate item of liabilities, while according to the CNB standard, hybrid instruments are stated in the position of financial liabilities measured at amortized cost;
- In the annual report, limited deposits in the amount of HRK 737 thousand are stated in other liabilities, and according to the CNB standard they enter the position of financial liabilities measured at amortized cost.
- tax liabilities in the amount of HRK 3,453 and provisions in the amount of HRK 749 thousand in the annual financial report are stated within other liabilities, and according to the CNB standard are separate liabilities;

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- in the presentation of share capital, the difference is in the position of accumulated other comprehensive income in the amount of HRK 1,713 thousand, which is shown in the annual report as reserves, while according to the CNB standard it is a separate item;

Reconciliation of cash flow statements

Deviations of positions in the cash flow statement published in the annual report from those defined by the prescribed structure and content of the CNB are not significant, and arise from different treatment and presentation of individual positions of the balance sheet and profit and loss account; balance sheet differences are described when comparing the balance sheet between the two reporting methods.

Reconciliation of reports on changes in equity

There is no difference in the statement of changes in equity published in the annual report in relation to the CNB standard.

Publications in accordance with Article 164 of the Credit Institutions Act

- 1) In addition to banking services for accepting deposits and approving loans for its own account, the Bank also provides the following financial services throughout the Republic of Croatia:
 - granting loans and borrowings, including consumer and mortgage loans and mortgages, financing of commercial operations, including export financing on the basis of purchase with discount and without recourse of long-term outstanding receivables secured by financial instruments (*forfeiting*);
 - redemption of receivables with or without recourse (*factoring*);
 - issuing guarantees or other guarantees;
 - trading for own account in money market instruments, transferable securities, foreign means of payment including foreign exchange transactions, financial futures and options;
 - issuing means of payment in the form of electronic money;
 - performing payment transactions in the country and abroad;
 - representation in the sale of insurance policies, in accordance with the law governing insurance, brokerage and insurance representation;
 - collecting, preparing analyzes and providing information on the creditworthiness of legal and natural persons who independently perform activities;
 - issuing and managing payment instruments intermediation in concluding financial transactions;
- 2) The Bank's total income in 2021 amounted to HRK 93,665 thousand;
- 3) The Bank employs 105 full-time employees, of which 98 are full-time employees, 7 part-time employees
- 4) Profit in the business year 2021 amounted to HRK 22,072 thousand;
- 5) Income tax for 2021 amounted to HRK 5,588 thousand;
- 6) In 2021, the bank did not receive public subsidies.