SLATINSKA BANKA d.d.

Vladimira Nazora 2, Slatina

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDTOR'S REPORT for the year 2022

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ANNUAL REPORT
FOR THE YEAR 2022

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SLATINSKA BANKA d.d.
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MANAGEMENT REPORT

MANAGEMENT REPORT ON THE FINANCIAL POSITION AND ANALYSIS OF BUSINESS PERFORMANCE

Dear clients, shareholders and employees,

In 2022, Slatinska banka d.d. marked thirty years of outstanding business. It is a reflection of successful continuity of growth and development.

We are proud of the realized business result of gross profit in the amount of HRK 8.8 million and the Bank's total balance growth by HRK 60.6 million to a total of HRK 1,596 million as of 31 December 2022.

On 1 January 2023, the Republic of Croatia introduced the euro as a new national currency, replacing the Croatian kuna. We are proud that during most of the last year, we actively participated in what we can already say is a historic project of introducing a new national currency. Considerable resources and focus were devoted to this significant project of the Croatian banking system.

Last year was primarily marked by the Russian-Ukrainian conflict which began in February 2022. From the very beginning of the crisis, we acted proactively, analysing the possible impacts of clients' exposure to the primary and secondary consequences of the conflict, from disruptions in the circulation of goods and services, to disruptions caused by the increase in the prices of goods and raw materials, which to a large extent also influenced the overall rise in inflation in country and abroad. The Bank has introduced and implemented all EU restrictive measures (sanctions), especially in the area of financial services.

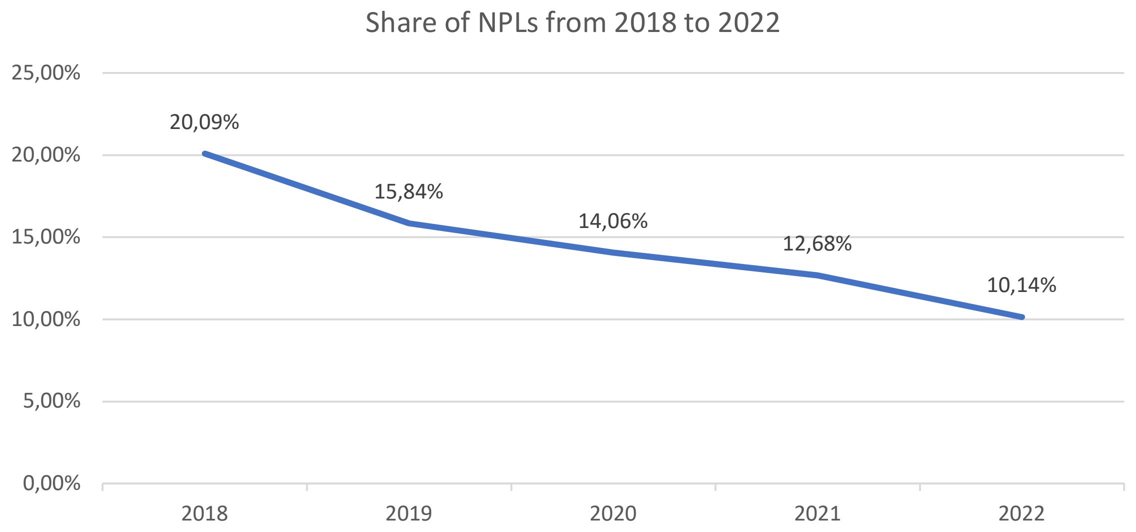
Despite the threats caused by the war conflict, the Bank recorded an increase in business activity and the loan portfolio in all segments. This growth was particularly pronounced in business with economic entities, primarily in the small and medium enterprises segment, which we still consider our key market. Significant growth in credit activity was also recorded in the retail segment, primarily in the consumer lending segment.

We are incredibly proud that the Bank's business result is predominantly the result of the Bank's core business, deposit and loan business with the Bank's key clients. The growth of the deposit and loan portfolio is a reflection of the high-quality product portfolio and top-notch service we provide to our clients, but also a reflection of the commitment of all employees to improve customer service and improve the Bank's position in every local market where the Bank operates.

We note an increase in loans and advances to clients by HRK 35.8 million (3.90%) compared to 2021. Loans and advances of the Bank in 2022 were approved, taking into account business risks and the creditworthiness of clients, as well as the best banking practice in the field of risk management.

Exposure to risks, especially credit risk, is continuously monitored, and in the coming period, the Bank will also strive to reduce its impact on the business result by means of quality management methods, primarily credit and operational risk..

Significant activities are aimed at improving the business processes of collection of exposures and assets, and this year we significantly reduced the bank's NPL from 12.68% at the end of 2021 to 10.14% at the end of 2022. This is a reflection of the quality process of approving new exposures and credit risk management through a smaller influx of NPLs, as well as improved organization and processes in all phases of collection..



The growth of net interest income by 4.8% is a reflection of the growth of interest income (15.67%) and the higher volume of lending and the successful collection of the NPL part of the balance sheet, but also the efficient management of liquidity sources and the reduction of interest expenses (-25.4%).

Slatinska banka contributes to ecologically sustainable operations. The Bank installed a solar power plant at its headquarters in Slatina in 2022, which should be put into operation by the end of April 2023. In addition, significant funds were invested in the investment in more energy-efficient LED lighting in most of the Bank's business units. In 2022, the Bank began to assess the sustainability of clients' business and their impact on the environment during the loan approval process in the corporate segment..

Slatinska banka monitors the needs of citizens, small and medium-sized entrepreneurs and their projects and investments, both in agriculture and in the promotion of entrepreneurship, supporting economic and agricultural fairs. As a responsible member of its local community, the Bank supports the activities of local associations, municipalities and cities and civil society organisations.

In 2022, the bank continued to invest in the development of the IT system, the development of digital channels and the availability of services to clients..

The Bank's Management recognizes employees as a key element of its development and success. The Bank will continue to develop investment programs in new and existing employees, education and training programs, which raise the level of knowledge and competence of all employees, but also the long-term sustainability of business in the context of employees as the main bearers of the quality of service we provide to clients and our own competence in providing financial services as a basic point of differentiation in relation to the main competitors.

Our goal is the sustainable and long-term development of the Bank and the success, satisfaction and prosperity of our clients, employees, the local environment in which we operate and society as a whole..

DEVELOPMENT OF SLATINDKA BANKA d.d. SLATINA

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

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

On 31 December 2022 the Bank operated through a network of 14 branch offices in the counties: Virovitica-Podravina, Osijek-Baranja, Požega-Slavonia, Brod-Posavina, Bjelovar-Bilogora, Koprivnica-Križevci, Primorje-Gorski Kotar County, and in the City of Zagreb. Recently, the Bank opened its credit office in Split.

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

Given the specific activity it deals with, R&D activities of the Bank are directed to research and analysis of the market with a view of improving the offer and enhancing the services it provides to its clients.

The Bank's business model is based on the principle of a universal local Bank, which is capable to provide its clients with a full range of financial service. This model will be dominant in the future as well.

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

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

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

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

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

New technologies accelerate changes to which the Bank responds by improvement of its operations, implementation of changes and through education of employees for adoption of new knowledge, all with a view of enhancing clients' satisfaction.

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

ANALYSIS OF THE BANK'S OPERATIONS IN 2022

Table: Basic financial indicators of Bank's operations

	2022 (in HRK '000)	2021 (in HRK '000)	index 2022/2021
ASSETS	**1,595,731**	**1,535,120**	**103,95**
STATEMENT OF PROFIT OR LOSS			
- Net interest income	51,582	49,257	104,72
- Net income from fees and commissions	9,598	8,773	109,40
- Other operating income	2,454	3,228	76,02
- Other operating expenses	-279	-931	29,97
- Administrative operating costs	-46,927	-42,770	109,72
- Depreciation	-4,141	-4,066	101,84
Result before impairment and provisions	**12,287**	**13,491**	**91,08**
- Impairment and provisions	-3,506	-8,393	41,77
Gross profits	**8,781**	**5,098**	**172,24**
- Profit tax	-2,687	-1,362	197,28
Net profit	**6,094**	**3,736**	**163,12**
TOTAL CAPITAL	**160,452**	**172,309**	**93,12**
CAPITAL REQUIREMENT	**153,775**	**160,447**	**95,84**
TOTAL CAPITAL RATE	**16.29%**	**18.63%**	**87,44**
ROA	0.39%	0.25%	156,00
ROE	3.66%	2.20%	166,36
NUMBER OF EMPLOYEES	179	184	97,28

Statement of Profit or Loss

In 2022, the Bank achieved a net profit of HRK 6,094 thousand.

Compared to 2022, the net interest income increased by 4.72%, i.e. HRK 2,325,000 and amounts to HRK 51,582,000.

The share of interest income in total income as of 331 December 2022 is 77.27%, and interest income is the main generator of the Bank's income. Interest income grew by 15.67% in 2022, while interest expenses decreased by 25.4% as a result of better management of sources of funds. Interest costs make up 4.15% of total costs.

Net income from commissions and fees amounted to HRK 9,598 thousand, which is 9.4% more than in 2021. Income from commissions and fees achieved growth in 2022 of 6.63%, while at the same time commission costs recorded a growth of 0.31%.

Other income was realized in the total amount of HRK 2,454 thousand, consisting of net gains from the purchase and sale of foreign means of payment and exchange rate differences (HRK 2,204 thousand), other operating income in the amount of HRK 216 thousand, and a net loss of HRK 34 thousand related to the reduction of financial instruments to fair value. Other operating expenses were realized in the amount of HRK 279 thousand.

General and administrative costs increased by 6.47%, and costs of contributions to the recovery fund increased by HRK 1,391 thousand. Depreciation costs increased by 1.85%. General and administrative expenses have increased in the part of employee expenses, which is a consequence of hiring experienced and professional staff in order to continue raising the quality of the Bank's management.

Provisioning and impairment costs in 2022 amount to HRK 3,506,000 and are HRK 4,887,000 less than in 2021.

In accordance with its policies and procedures, the Bank conducts regular exposure assessments and makes adequate corrections to the value of the relevant exposures.

Balance Sheet

The Bank's balance sheet as of 31 December 2022 is HRK 1,595,731 thousand, which is an increase of HRK 60,611 thousand or 3.95% compared to 2021.

The planned optimization of sources of funds, in accordance with the planned placement policy, is carried out with the aim of achieving profitability, while maintaining a high level of liquidity with the best possible capital allocation.

Loans and advances to clients amount to HRK 954,813 thousand, they increased by HRK 35,755 thousand, or by 3.89%, mostly due to the increase in the level of placements in the corporate sector. Deposits, which constitute the primary source of financing, together with received loans amount to HRK 1,411 million and have increased by HRK 70 million (5.25%) due to the growth of demand deposits.

Below is a presentation of the sectoral structure of assets and liabilities:

Table: Sectoral structure of assets on 31 December 2022

(in HRK '000)

	2022	%	2021	%
CORPORATE	**484,600**	**30%**	**399,835**	**26%**
- companies	394,546		309,134	
- private persons (craftsmen, family farms)	79,736		72,611	
- local self-government and non-profits	6,791		14,247	
- other	3,527		3,844	
RETAIL	**461,516**	**29%**	**427,590**	**28%**
FINANCIAL INSTITUTIONS	**34,335**	**2%**	**29,601**	**2%**
DEBT SECURITIES	**231,455**	**15%**	**230,247**	**15%**
OTHER PLACEMENTS AND ASSETS	**383,825**	**24%**	**447,847**	**29%**
TOTAL:	**1,595,731**	**100%**	**1,535,120**	**100%**

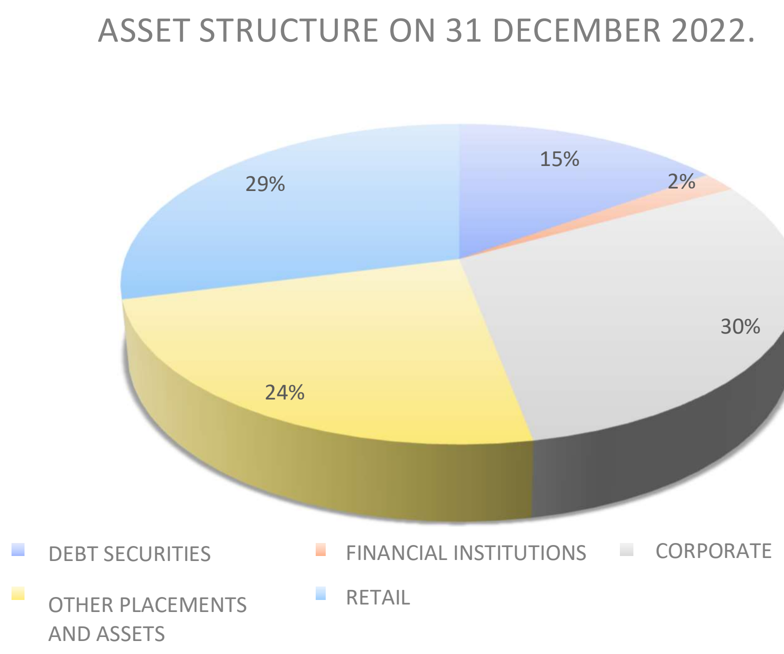
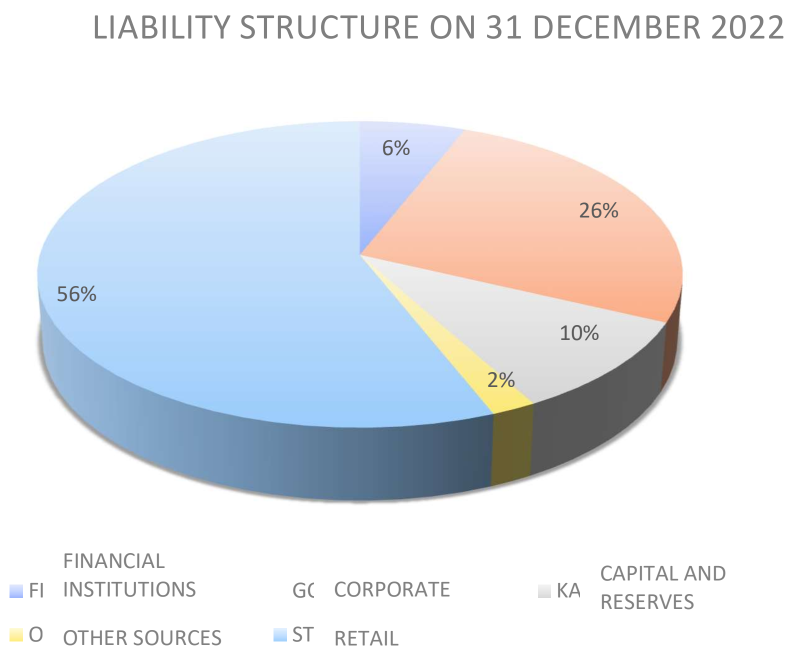


Table: Sectoral structure of liabilities on 31 December 2022

(in HRK '000)

	2022	%	2021.	%
RETAIL	**902,218**	**56%**	**923,372**	**60%**
CORPORATE	**416,135**	**26%**	**325,072**	**21%**
- companies	311,095		154,989	
- private persons (craftsmen, family farms)	65,654		118,363	
- local self-government and non-profits	39,386		51,720	
FINANCIAL INSTITUTIONS	**91,588**	**6%**	**91,185**	**6%**
OTHER SOURCES	**25,338**	**2%**	**23,182**	**2%**
CAPITAL AND RESERVES	**160,452**	**10%**	**172,309**	**11%**
TOTAL:	**1,595,731**	**100%**	**1,535,120**	**100%**



Corporate Segment

Operations in the corporate sector are primarily focused on the financial monitoring of micro, small and medium-sized enterprises, craftsmen and family farms, primarily from own funds and through credit lines in cooperation with local government units. We would single out the Agreement on business cooperation in crediting spring and autumn sowing in 2022 in the area of Virovitica-Podravina County, which received great interest among the Bank's clients.

Placements in the corporate segment in 2022 amount to HRK 485 million (HRK 400 million in 2021).

The Bank has developed cooperation with the Croatian Agency for Small Business, Innovation and Investments (HAMAG-BICRO) for the issuance of individual and portfolio guarantees financed from the European Structural and Investment Funds. The primary objective of these guarantees is to offer quality insurance instruments to entrepreneurs who are unable to make investments in small businesses. Also, through business cooperation with the Croatian Bank for Reconstruction and Development (CBRD), the Bank can offer credit lines to its clients using loans from HBOR sources, including programs to help entrepreneurs who had financial difficulties caused by inflationary effects.

In the course of our operations, we devote special attention to our farmers, who we follow in their business while adapting products to their needs.
Also, the Bank actively participates in the financing of local government and self-government units, thereby solving development infrastructure needs in a high-quality manner and creating quality foundations for further economic development of the areas in which the Bank operates.

In addition to lending, the Bank also offers business entities the issuance of all forms of guarantees, in HRK and foreign currency: bid, performance and payment guarantees, letters of credit and other forms of guarantees t required in today's business environment..

Creditworthiness, high-quality development programs and management expertise are fundamental prerequisites for the financial monitoring of clients. The goal we want to achieve is to be recognized as a reliable partner for entrepreneurs in the local market with an individual approach to the client and quality and service adapted to their needs that will help them achieve their goals more easily.

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

The past year was also marked by the preparation for the change of the national currency, and we provided the Bank's clients with a timely advance supply of the necessary euros.

Due to the current specificity of the business of entrepreneurs, we ourselves have adapted to new ways of doing business and prefer online communication, with a partnership approach and reduced documentation wherever possible.

When it comes to future operations in the corporate sector, the basic activities will continue to be focused on the development and increase of the quality of services that the Bank offers to entrepreneurs, and on the further joint building of mutual business trust and partnership while adapting to modern ways of doing business..

Retail Segment

In 2022, the project of replacing the national currency was started and successfully completed. Employees of the Retail Segment, deployed in the Bank's branches, successfully contributed to the completion of the conversion to the clients' satisfaction without any interruption in their daily work.

Through continuous development and sales activities, the Bank has recorded the stability of deposits in retail operations. The continuation of the trend of overflowing time deposits into a vista deposits is visible, the result of which is the fall in interest rates on liabilities, which ultimately resulted in a decrease in interest expenses.

The total retail gross credit portfolio at the end of 2022 amounted to HRK 487 million, which is a growth of 7.2% compared to the previous year.

In 2022, the Bank expanded its network to the south of Croatia by opening a credit office in Split. This once again pointed to the stability of the Bank itself and its plan to expand its Network and the aspiration to expand its market share.

In the retail business segment, the Bank continues to plan to invest in the development of the business network, direct banking services via Internet and mobile banking, and investments in advertising and marketing..

Payment Transactions

The functioning of payment transactions (national, cross-border and international) through the Bank's network of branches, ATMs, day-night vaults, the network of FINA branches and through electronic payments made by Bank clients and other participants in payment transactions is intensively monitored since it is extremely important for all Bank clients and other participants.

In 2022, the digital transformation of business continued, which was well received by clients, expressed by an increase in both the number of transactions and values. A significant rise in the number of client orders placed through mobile and internet banking is particularly important, which ensures continuity and quality in the banking market..

During 2022, the preparation of activities for the replacement of the domestic currency was successfully carried out, which includes pre-supplying the Bank with cash by the CNB, dual display of prices five months before and 12 months after the transition to the euro, the transition of non-cash payments to the euro on the day of conversion (1 January 2023) and double circulation of cash during the first two weeks after the introduction of the new currency. Adjustments to ATMs and associated IT support were made. All the mentioned activities were carried out by the Bank without additional fees for clients.

The Bank has a developed network of correspondent banks. It conducts foreign currency payments through the SWIFT Alliance application and is an active participant in the TARGET2 system, with active participation in the T2 consolidation project. It is an active participant in the EuroNKS system, which means it is directly included in the SEPA payment system (Single Euro Payments Area).

Since 2017, the Bank has been an active participant in the SEPA Direct Debit basic and business payment scheme

Bank's Information System

Trends indicate an increasing need for the digitalization of operations, which is also present in the more conservative banking sector. Technological legacy represents the biggest challenge for traditional banks. Information systems, which are the driver of innovation, often turn into the biggest obstacle in the digitalization process. Product-oriented application architecture leads to the multiplication of application support and processes for different banking products.

Digitization in the aforementioned sense implies the provision of a better service with a client orientation and in accordance with the client's needs, but also cheaper products by reducing the classic costs of office operations, archiving, administration and speeding up processes and interaction with clients.

In addition to the above, digitization contributes to the user experience (UX) by improving the graphical user interface as well as by aggregating functionality from different systems and user-oriented presentation of information.

The assumptions of digital banking are:
- The client as a central point,
- Real-time information,
- Automation and
- Collaboration.

Clients are no longer passive users of financial services. With digitization, they take control and manage financial decisions and expectations. Clients expect the Bank's help to achieve their financial goals in an efficient and expedient manner. The characteristic of modern clients is that they are more demanding in terms of their relationship with the Bank, with more self-confidence, more influence and significantly more specific expectations. In order for the Bank to keep up with such demands, it is necessary to introduce innovations in standard products and adjust processes. It should be noted that the focus is no longer only in relation to the Bank's existing clients, but to all potential clients.

The need for real-time information is manifested through the ability to convert information that is obtained and analysed in near-real time into information on the basis of which a specific activity is initiated. Advanced analytical technologies are used, inside and outside the organization. The client perceives a service that is based on real-time information as personalized with added value. Such a service, among other things, actively educates the client about his needs even before the client has become fully aware of them.

A significant increase in the volume of transactions requires automation. Automation is a key prerequisite for a good customer experience in terms of service that is fast, fluid and without downtime. It refers to the user interface experience, but also background processes. Likewise, automation enables an increase in the volume of transactions without or with minimal additional cost for the Bank and the acceleration of the process of acquiring new clients. Looking at the internal organization, automation reduces the need for repetitive tasks and frees up capacity for activities that generate more or additional value.

Collaboration refers to the establishment of a collaborative ecosystem, made up of several service providers who together provide the client with the best experience in terms of financial needs and thus provide the best product. The ecosystem itself consists of several partners, banks on the one hand, and FinTech and telecom companies on the other. Such associations make it possible to connect the bank with other networks and expand the scope of business. One of the biggest challenges when creating collaborative systems is how to manage the security risk that arises as a result of granting access to the bank's information and systems to third parties.

In addition to the above, the Bank has made comprehensive preparations for the new DWH and is in the phase of implementing new data management methods with the aim of more efficient internal and external reporting and better quality management of the entire system.

New servers and disk systems for the primary and DR side, which are sufficient for the future period of 5 years, have been acquired, as well as new licenses for increased security of access of the Bank's customers through direct channels (HID system), all prerequisites for sending instant messages with SMS and Viber have been prepared. The bank's CORE system was expanded with an additional environment that was used for the EUR project, which the Bank successfully completed within the defined deadlines.

BUSINESS RISKS

Risk Management Policies and Strategies

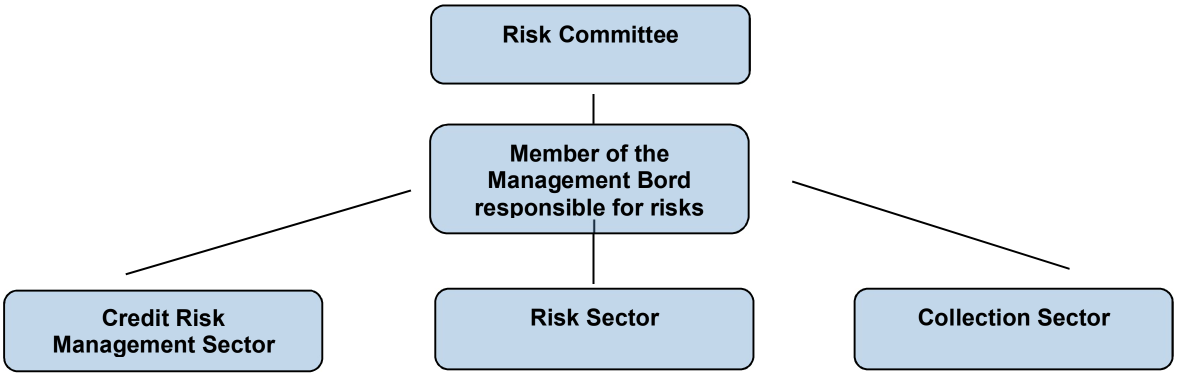
Risk is defined as the possibility of the occurrence of events that may adversely affect the Bank's capital, revenues or sustainability and the achievement of goals.

The risk management system is the comprehensiveness of the organizational structure, rules, processes, procedures, systems and resources for determining, measuring or evaluating, mastering, monitoring and reporting on risk exposure or risk management as a whole, and implies the establishment of appropriate corporate governance, risk culture and strategy adoption, policy and other internal acts for risk management.

Risk management is the entire process of identifying, assessing and monitoring risks, taking into account the Bank's goals and taking the necessary actions, with the aim of reducing risks.

Organisation of Risk Management

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



Risk Committee

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

Credit Risk Management Sector

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

The following positions participate in the functioning of the Credit Risk Management Sector:

- Senior Expert Associate for credit risk management and credit risks
- Senior Credit Risk Management Associate.

Risk Sector

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

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

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

Collection Sector

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

Risk Exposure

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

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

Risk profile

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

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

Approach to risk management

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

Risk management process

The risk management process must be tailored to the type of risk to which it relates. Each process must contain at least the following:

- risk assessment,
- risk measurement,
- risk management,
- risk monitoring and reporting,
- risk control.

Level of acceptable risks

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

The Bank is obliged to maintain an appropriate amount of regulatory capital for the purpose of safe and stable operations, i.e. fulfilment of obligations to its creditors. The regulatory capital of a credit institution may not be less than the amount of share capital prescribed by law or the internal capital prescribed by the Decision.
The Bank is obliged to operate in such a way that it is able to meet due financial liabilities in a timely manner at all times (liquidity principle) and that it is permanently able to meet all its obligations (solvency principle).
In its risk policies, the Bank prescribes the levels of acceptable risks for defined risks.

Risk exposure reporting

The Management Board and the Supervisory Board of the Bank are regularly informed on various aspects of portfolio quality risk, and recovery plan indicators and are provided with all the information necessary to assess the risk to which the Bank is exposed. The report contains detailed information on exposures, risk assessments, concentrations and changes in the risk profile. The risk

sector also prepares additional reports that provide the necessary information for proactive risk management.
Control functions compile individual and periodic reports in accordance with the Rules of Procedure of the Risk Control Function, the Rules of Procedure of the Compliance Monitoring Function and the Rules of Procedure of the Internal Audit.

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

Credit risk

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

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

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

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

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

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

The overall compliance with the provisions of the Policy is implemented through the function of risk control, sectoral control departments and Internal Audit, according to the adopted annual plans. The risk control function, sectoral control departments and internal audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board after the controls have been performed.

The method of credit risk protection is continuous monitoring of individual placements so that it enables timely taking of appropriate measures to reduce credit risk in the event of deterioration of the creditworthiness of the debtor or the provider of the collateral.
Throughout the duration of the contractual relationship, the Bank assesses the credit quality of exposures and classifies these exposures into appropriate risk groups based on the following criteria:
1) creditworthiness of the debtor,
2) regularity in settling the debtor's obligations to the credit institution and other creditors, and
3) quality of collateral by individual exposure.

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

The main criteria / relevant data for classifying exposures into risk groups are:
- Days of delay,
- Status of receivables - Restructured placements, COVID-19,
- Account suspension,
- Internal creditworthiness assessment,
- Status of the deceased.

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

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

Definition of default status

The status of default of an individual debtor was created by fulfilling one or both of the following conditions:

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

Criteria for classification and reduction of exposure in the A risk group

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

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

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

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

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

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

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

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

DF

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

Strategic risk

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

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

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

This risk is related to the Bank's strategic objectives, the business strategy developed to achieve the strategic objectives, the resources used to achieve those objectives and the quality of implementation. The resources needed to implement business strategies are tangible and intangible assets, including communication channels, operating systems, delivery networks, and management capacity and capabilities. Through the measurement process, the Bank will determine the realization of adopted plans, i.e. the level of deviation from the Bank’s adopted plans and strategic goals in order to timely determine the reason for deviations and initiate activities to achieve the Bank’s strategic goals.

Protection against strategic risk is a set of guidelines, strategies, methods and activities that clearly define what the Bank wants and how to achieve it, or how to eliminate or mitigate certain deviations. In the process of strategic risk management, the Bank may use the services of external institutions.

Residual risk

The Bank has prescribed a Residual Risk Management Policy aimed at identifying, measuring, managing and monitoring and reporting on residual risk. Residual risk is the risk of loss that arises if recognized credit risk mitigation techniques used by a credit institution are less effective than expected.
Residual risk monitoring and reporting are performed within the Risk Department and the risk control function. The senior expert associate for monitoring and measuring credit risks submits a report on residual risk management to the Risk Committee at least once every six months.

The Bank measures residual risk by comparing the ratio of uncollected receivables (which were estimated to be fully secured) and the total secured receivables with the same type of credit protection. The second measure is by monitoring the records of real estate sold in court/enforcement/bankruptcy proceedings and the records of initiated and still unsold real estate for the purpose of obtaining information on the marketability of certain types of collateral. Then a projection is made of the foreclosure of property for a period of two years to control the restrictions on the further foreclosure of real estate.

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

Reputational risk

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

The control is carried out through the success of the applied results obtained from the analyses based on which targeted action was taken to remove the negative reputation related to the Bank.
Overall compliance with the provisions of the Policy is carried out through the risk control function, sector control departments and internal audit according to the adopted annual plans. The risk control function, Sectoral Control Departments and Internal Audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board after the controls have been carried out.
The way to protect against risk is to manage reputational risk in such a way as to direct public opinion about the Bank in the desired way.

Interest rate risk

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

The process of interest rate risk management in the book of non-trading positions includes the determination or identification of interest rate risk, measurement and monitoring, interest rate risk management; and interest rate risk control and reporting.

Continuous measurement and monitoring of interest rate risk are performed using the methods of GAP interest rate analysis (repricing gap analysis); standardized interest rate shock methods on net interest income within one year; monitoring and analysis of net interest income and interest margin; and analysis of the realization of net interest income plans and calculation of EVE change according to the prescribed shocks in the Management System Decision.

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

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

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

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

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

Prescribing and determining the annual plan (by which the Bank determines the planned amounts of placements and sources for individual products and the dynamics of their realization and the absolute size of assets on which the Bank has a contractual right to charge interest in relation to liabilities on which the Bank has a contractual obligation to pay interest); then Decisions on interest rates (which affect the level of interest rates, variability of interest rates or the possibility of contracting variable interest rates, and method of calculating interest rates); and Credit policies (which affect the sectoral structure of placements, the structure of placements by individual credit lines); and Asset and liability management policies (which affect the structure of the Bank's assets and liabilities) take into account the impact of interest rate risk, i.e. they affect the reduction of interest rate risk.

The goal of interest rate risk management is to permanently and stably maintain an acceptable interest margin, i.e. to increase it as much as possible in order to achieve a satisfactory net interest income sufficient to achieve the Bank's planned profitability.

Operational risk

Slatinska banka d.d. in its Risk Management Strategy prescribes the management of all risks, including operational risk and the entire process of identifying, assessing and monitoring risk, taking into account the Bank's objectives, and taking the necessary actions to reduce risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for risk management.

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

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

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

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

Currency risk

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

The Market Risk Management Policy defines the determination or identification, measurement, and management of currency risk; then monitoring, controlling and reporting on currency risk, as well as the acceptable level of currency risk.
The overall compliance with the provisions of the adopted policies is implemented through the risk control function, sectoral control departments and internal audit according to the adopted annual plans. After the performed controls, the Risk Control Function, Sectoral Control Departments and Internal Audit report to the Bank's Management Board, the Risk and Audit Committee and the Supervisory Board, and specific measures are adopted depending on the situation.
Currency risk control is performed through a quarterly internal report on currency risk, followed by a semi-annual report on the work of the Risk Control Function. The Treasury Department continuously monitors the movement of the exchange rate and reports on this to the Liquidity Committee. All significant changes are reported to the Bank's Management Board and the Liquidity Committee without delay.

Currency risk is measured on a monthly and daily basis through the following methods and approaches:
- gap report - a basic model for measuring currency risk. It contrasts the currency items of assets and liabilities and off-balance sheet items, and calculates the Bank's open positions in different currencies;
- daily measurement of the Bank's exposure to currency risk based on the Currency Risk Exposure Report by individual currencies.

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

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

Liquidity risk

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

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

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

Concentration risk

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

The Bank manages concentration risk in five ways:

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

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

Country risk

The Country Risk Management Policy, which is an integral part of the Risk Management Strategy, prescribes the policy and procedure for identifying, measuring, monitoring and controlling the risk of the country in which the debtor has its registered office or residence.
Country risk is determined on the basis of an assessment of the probability of default of a counterparty domiciled or resident outside the Republic of Croatia arising from economic and political factors specific to a particular country and an assessment of the feasibility of the placement contract and the possibility of liquidation of the collateral according to the legislation of each country in a given period.

In order to monitor country risk, the Treasury Department is obliged to monitor the movement of the credit rating of the country or credit institution in which the free foreign currency funds are placed, and it is obliged to inform the Bank's Management Board twice a year. For those credit institutions that do not have the credit rating of the selected external institution for credit risk assessment, the creditworthiness of the same must be determined semi-annually. The Treasury Department is required to submit a semi-annual report to the Bank's Credit Committee on the creditworthiness of legal entities with which the Bank has placed funds abroad. Based on the submitted reports, the Credit Committee will propose individual limits of maximum exposure to individual legal entities that have their registered office or residence outside the Republic of Croatia, taking into account the country risk and the profitability of operations.

Leverage risk

Leverage risk means a risk arising from an institution's vulnerability to leverage or potential leverage and that may lead to undesirable changes to its business plan, including the forced sale of assets, which may result in losses or adjustments to the valuation of its remaining assets.
The leverage ratio is calculated by dividing the institution's capital measure by the institution's total exposure measure and is expressed as a percentage.
The Bank calculates the leverage ratio at the reporting date.
The measure of capital is share capital.
The measure of total exposure is the sum of the exposure values of:
1) assets
2) derivatives,
3) increases for the counterparty's credit risk in repo transactions, securities or commodities lending transactions to or from the counterparty, long-term settlement transactions and other margin loans,
4) off-balance sheet items.

Risks arising from exposure to shadow banking entities

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

Summary of the internal capital adequacy assessment procedure

Significant risks	Assessment of risk significance	Explanation of significance assessment	Treatment in ICAAP	
			Qualitative (YES/NO)	Quantitative (YES/NO)
Credit risk	5	The risk was rated as high risk (5); from the economic point of view, and from the P/L aspect as medium-high risk (4), and accordingly, the final significance rating is 5.	NO	YES
Concentration risk	3	The risk was assessed from the economic aspect as medium (3), while from the P/L aspect, it was assessed as low (2), and due to the importance of managing this risk and risk quantification within the framework of ICAAP, the final significance of the risk was assessed as medium (3)	NO	YES
Management risk	2	From a qualitative aspect, the risk was assessed as low risk (2) and the final significance of the risk was assessed as low (2). As part of the ICAAP, it is classified as other risks.	YES	NO
Interest rate risk in the book of non-traded positions	3	The risk was assessed as medium risk (3) from the economic point of view, while from the RP/L aspect; it was assessed as low risk (2). The final significance rating is the medium significance (3).	NO	YES
Liquidity risk including the possibility of raising additional capital	2	The liquidity risk is assessed as immaterial (1) from both the economic and P/L aspects because the Bank maintains a very high level of liquidity reserves. Finally, the significance of the risk was assessed as immaterial	YES	NO
Operational risk	4	The risk was assessed as medium (3) from the economic aspect, from the P/L aspect it was assessed as low (2) and accordingly, it was assessed as medium risk (4).	NO	YES
Strategic risk	2	The risk was assessed by P/L and the qualitative aspect as low risk (2) and the final significance of the risk was assessed as low (2).	YES	NO
Risk of excessive financial leverage	2	From a qualitative point of view, the risk was assessed as low risk (2) and was assigned low significance (2). Based on the desired risk profile and planned growth, the Bank will control and monitor the risk of excessive financial leverage as a monitoring tool over the	YES	NO

		disproportionate growth of exposure in relation to regulatory capital.		
The influence of external factors	2	From a qualitative point of view, the risk was assessed as a low risk and was assigned a low significance (2).	YES	NO
Country risk	2	From a qualitative point of view, the risk was assessed as a low risk and was assigned a low significance (2). The quantification itself is carried out through the basic credit risk (standardized approach).	YES	NO
Residual risk (real estate marketability risk)	3	The risk was assessed as immaterial (1) from both the economic and P/L aspects, however, due to the significant share of the credit portfolio secured and classified on the basis of the real estate insurance instrument, due to the importance of managing this risk and due to the fact that the risk is quantified in the ICAAP, the significance of the risk is rated as medium (3).	NO	YES
Shadow banking	2	From a qualitative point of view, the risk was assessed as low risk and was assigned a low significance (2).	YES	NO
Compliance risk (Risk of violation of regulations and conflict of interest)	2	From a qualitative point of view, the risk was assessed as low risk and was assigned a low significance (2).	YES	NO
The risk of non-purpose cash loans to households	3	The risk is assessed as medium (3) on the basis of the economic approach, while on the basis of the P/l approach the assessment is low (2). The qualitative assessment and the final assessment of the significance of the risk are medium (3).	NO	YES
Reputational risk	2	The risk was assessed as low and immaterial and, based on the qualitative aspect; it was given a final assessment of low risk and low significance (2).	YES	NO

Prevention of money laundering and terrorist financing

Due to their central role in conducting transactions, financial institutions are particularly exposed to money laundering and terrorist financing, and as active entities they have a moral, social and legal obligation to help eradicate criminal activities.

The international standards for the prevention of money laundering and terrorist financing compiled and defined by the Financial Action Task Force (hereinafter: FATF) prescribe the key principles of action aimed at preventing money laundering and terrorist financing.

Based on FATF recommendations, states and communities of states around the world implement the principles of preventing money laundering and terrorist financing in their own legal framework, adapting the procedures to their own specific organization.

For the stated purpose, the Republic of Croatia has adopted and adapted to its own system a series of directives of the European Union in the field of prevention of money laundering and financing of terrorism, implementing their provisions in the national legislation by passing the Anti-Money Laundering and Terrorism Financing Law (hereinafter: the Law) and related by-laws.

Slatinska Bank d.d. Slatina (hereinafter referred to as: the Bank) contributes to the national system of combating money laundering and terrorist financing by aligning its own policies and procedures with the provisions of the Law and by systemic actions aimed at raising awareness and a culture of compliance in the Bank. As a financial institution, the Bank contributes to common compliance by implementing, where necessary, and in accordance with the legal framework, even stricter measures than those prescribed by the Law.

The Bank's Rulebook on Prevention of Money Laundering and Financing of Terrorism (hereinafter: the Rulebook) is based on the provisions prescribed by the Law and by-laws, the Law on International Restrictive Measures, related EU regulations and UN resolutions, regulations of the Ministry of Finance, guidelines of supervisory bodies, policies and the guidelines of the competent EU bodies. The Rulebook is a basic internal act that adopts the principles, defines the system and regulates the basic processes of preventing money laundering and terrorist financing in the Bank.

The AMLFT function, as a control function, participates in the preparation of operating procedures and their amendments, as well as in the compilation of the Bank's internal acts, which are applied in the prevention and detection of money laundering and terrorist financing. Likewise, the AMLFT function monitors and coordinates the activities of the Bank's organizational parts in the area of prevention and detection of money laundering and terrorist financing.
The AMLFT function coordinates the organizational parts of the Bank in the area of prevention of money laundering and terrorist financing and ensures that the Bank effectively implements policies and procedures related to money laundering and terrorist financing. AMLFT participates in the preparation and amending of operating procedures, collecting and analysing the results of internal and external controls.
AMLFT participates in the establishment and development of information support to other organizational parts of the Bank for the implementation of activities in the field of prevention and detection of money laundering and financing of terrorism. AMLFT takes care of the Bank's reputation and compliance of its work with relevant regulations and ethical values. At the same time, it is not primarily guided by the market and business interests of the Bank and thus differs from other organizational parts that do not have an obligation of independence.

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

IZJAVA O PRIMJENI KODEKSA KORPORATIVNOG UPRAVLJANJA

Pursuant to the provisions of Article 272.p of the Companies Act and Article 22 of the Accounting Act, the Management Board of SLATINSKA BANKA d.d. declares that the Bank voluntarily applies the Code of Corporate Governance, which was jointly developed by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange (ZSE), on whose websites it was published.
The annual questionnaire will be available on the Bank's website, www.slatinska-banka.hr and the website of the Zagreb Stock Exchange, www.zse.hr. The bank follows and applies the prescribed measures of corporate governance, with explanations of individual exceptions within the questionnaire where appropriate.
In accordance with the consistent application of the principles of the Code, the Bank develops and acts in accordance with the age of corporate governance practices and strives to contribute to transparent and efficient operations and better relations with the business environment in which it operates with its business strategy, business policy, key internal acts and business practices. In order to protect the interests of all investors, shareholders, clients, workers and others who have an interest, the Bank has established high standards of corporate governance.

The Bank has established an internal control system that is realized through the parallel operation of four mutually independent functions: risk control functions, compliance monitoring functions, internal audit functions, and anti-money laundering and terrorist financing functions. The main features of the Bank's internal control system are reflected in the independent holders of control functions. responsible for the identification, assessment and management of risks, including the risk control and compliance function, while internal audit oversees the entire operations of the Bank

Information on the implementation of internal supervision and risk management, as well as information on the Bank's shareholders, are contained in the Notes to the financial statements.

The most significant individual shareholder of the Bank is AU79 CAPITAL KORLATOLT FELELOSSEGU TARSASAG.

Management and Supervisory Board

The powers of the Bank's Management Board and Supervisory Board are regulated by the relevant legal regulations and the Bank's Statute. The procedure for appointing, or electing, as well as recalling members of the Management Board and the Supervisory Board is prescribed by the Companies Act, the Credit Institutions Act and the Bank's Statute.

Management Board

In accordance with the provisions of the Bank's Statute, it is prescribed that the Management Board consists of two to five members.
The decision on the number of members of the Management Board is made by the Supervisory Board of the Bank.
The president and members of the Bank's Management Board are appointed by the Bank's Supervisory Board for a term of four years, with the prior consent of the Croatian National Bank.
Members of the Bank's Management Board must meet the conditions for holding the position of a member of the Management Board prescribed by the Companies Act, the Credit Institutions Act and relevant by-laws and internal acts of the Bank (suitability, good reputation, necessary professional

knowledge and ability, requirement for continuous education, experience, avoidance of conflicts interests and the requirement for commitment to fulfilling duties). The members of the Management Board must together have the professional knowledge, abilities and experience necessary for the independent management of the affairs of the credit institution.
The suitability of an individual member of the Bank's Management Board for the performance of the relevant function represents the extent to which that person has the qualities and fulfils the prescribed conditions to ensure that he will perform his duties legally, safely and stably.
The competence of the members of the Management Board is prescribed by the Rules of Procedure of the Management Board. The Management makes decisions and conclusions at meetings.
The members of the Bank's Management Board are full-time employed in the Bank. The Supervisory Board decides on the revocation of the appointment of a member of the Management Board in accordance with the Companies Act and the Labour Act.
On 31 December 2022, 3 members (the President and two members of the Management Board) perform the tasks of the Management Board.

Members of the Management Board during 2022:

Andrej Kopilaš, President of the Management Board (from 27 July 2017)
Oliver Klesinger, member of the Management Board (from 15 November 2019)
Marin Prskalo, member of the Management Board (from 27 July 2017 to 21 March 2023)

On the date of signing this report, the members of the Management Board are:

Andrej Kopilaš, President of the Management Board (from 27 July 2017)
Oliver Klesinger, member of the Management Board (from 15 November 2019)

Supervisory Board

The Supervisory Board supervises the conduct of the Bank's business and is obliged to perform the tasks established by the Companies Act, the Credit Institutions Act, the Bank's Statute and the Supervisory Board's Rules of Procedure, which includes the appointment (with the prior consent of the Croatian National Bank) and recall of members of the Bank's Management Board.

Members of the Bank's Supervisory Board must meet the conditions for holding the office of a member of the Supervisory Board prescribed by the Companies Act, the Credit Institutions Act and relevant by-laws, as well as the Bank's internal acts.

The members of the Supervisory Board must together have the professional knowledge, abilities and experience necessary for independent supervision of the Bank's affairs, and especially for understanding the Bank's affairs and significant risks. The suitability of an individual member of the Supervisory Board of the Bank for the performance of the relevant function represents the extent to which that person has the qualities and fulfils the prescribed conditions to ensure that he/she will professionally, legally, safely and stably perform the tasks within his jurisdiction.

The Bank's Supervisory Board has established a Risk and Audit Committee, while the functions of the Receipts Committee and the Appointments Committee are performed by the Supervisory Board itself. The scope and manner of work of the board are regulated by the rules of procedure on the work of the board, in accordance with the relevant legal regulations.

Members of the Supervisory Board during 2022 and on the date of signing this Report:

Dušan Banović, President of the Supervisory Board (from 6 September 2018 to 30 June 2022),
Srećko Vukić, member of the Supervisory Board (from 6 September 2018 to 30 June 2022)
Domagoj Petrinović, President of the Supervisory Board (from 1 July 2022)
Anita Zelić, member of the Supervisory Board from (from 1 July 2022),
Domagoj Karačić, member of the Supervisory Board (from 26 August 2020)

Description of diversity policy

The Bank applies diversity standards when selecting members of the Management Board and the Supervisory Board, which are prescribed by the Bank's policies.
The Bank strives to ensure equal representation of the underrepresented gender - women in the Supervisory Board and the Bank's Management Board. In order to increase the number of the underrepresented gender, the Bank will strive to have at least 33.3% female members of the Supervisory Board and Management Board in the next five years, compared to the total number of members of the Supervisory Board and Management Board. Among the key standards and responsibilities of all involved functions and employees is the continuous striving to increase the number of women in management functions, which is the reason for the promotion of the role of women in management bodies, as well as monitoring and reporting on the representation of women in corporate management processes.

In the composition of the Supervisory Board, out of a total of 3 members of the Supervisory Board as of 31 December 2022, two members are men and one is a woman, while in the composition of the Management Board, all three members of the Management Board are men.
The standard of professional and age diversity is also represented during the assessment and selection of members of the Management Board and the Supervisory Board, as well as the evaluation of the business experience.

General Assembly
Shareholders of the Bank exercise their rights in the General Assembly of the Bank. The General Assembly of the Bank decides on issues determined by law and the Bank's Statute. The General Assembly is convened by the Bank's Management Board, and must be convened when requested by the Supervisory Board, the Bank's Management Board or shareholders, in accordance with the law. Each ordinary share gives the right to one vote in the General Assembly.

Amendments to the Statute
The decision on amendments is made by the Bank's General Assembly in accordance with the law and the Statute, with votes representing at least three-quarters of the share capital represented at the General Assembly when making the decision.
Amendments to the Statute are proposed by the Supervisory Board, the Management Board and the Bank's shareholders.

Shares of members of the Supervisory Board and the Bank's Management Board
As of 31 December 2022, members of the Supervisory Board did not own any Bank shares, while the President of the Supervisory Board owned 38,050 Bank shares.
The members of the Management Board did not own shares of the Bank.
Shareholders of the Bank exercise their rights in the General Assembly of the Bank. The General Assembly of the Bank decides on issues determined by law and the Bank's Statute. The General Assembly is convened by the Bank's Management Board, and must be convened when requested by

the Supervisory Board, the Bank's Management Board or shareholders, in accordance with the law. Each ordinary share gives the right to one vote in the General Assembly of the Bank.

Management organization

The duties, responsibilities and powers of the members of the Management Board and the Supervisory Board are regulated by the Companies Act and elaborated in more detail in the Bank's Statute and Rules of Procedure. The Management Board meets once a week, and the Supervisory Board meets as needed, but at least once a quarter.

Employees

The number of employees on 31 December 2022 was 179.

The audited financial statements will be presented to the shareholders at the General Assembly.

ESG reporting

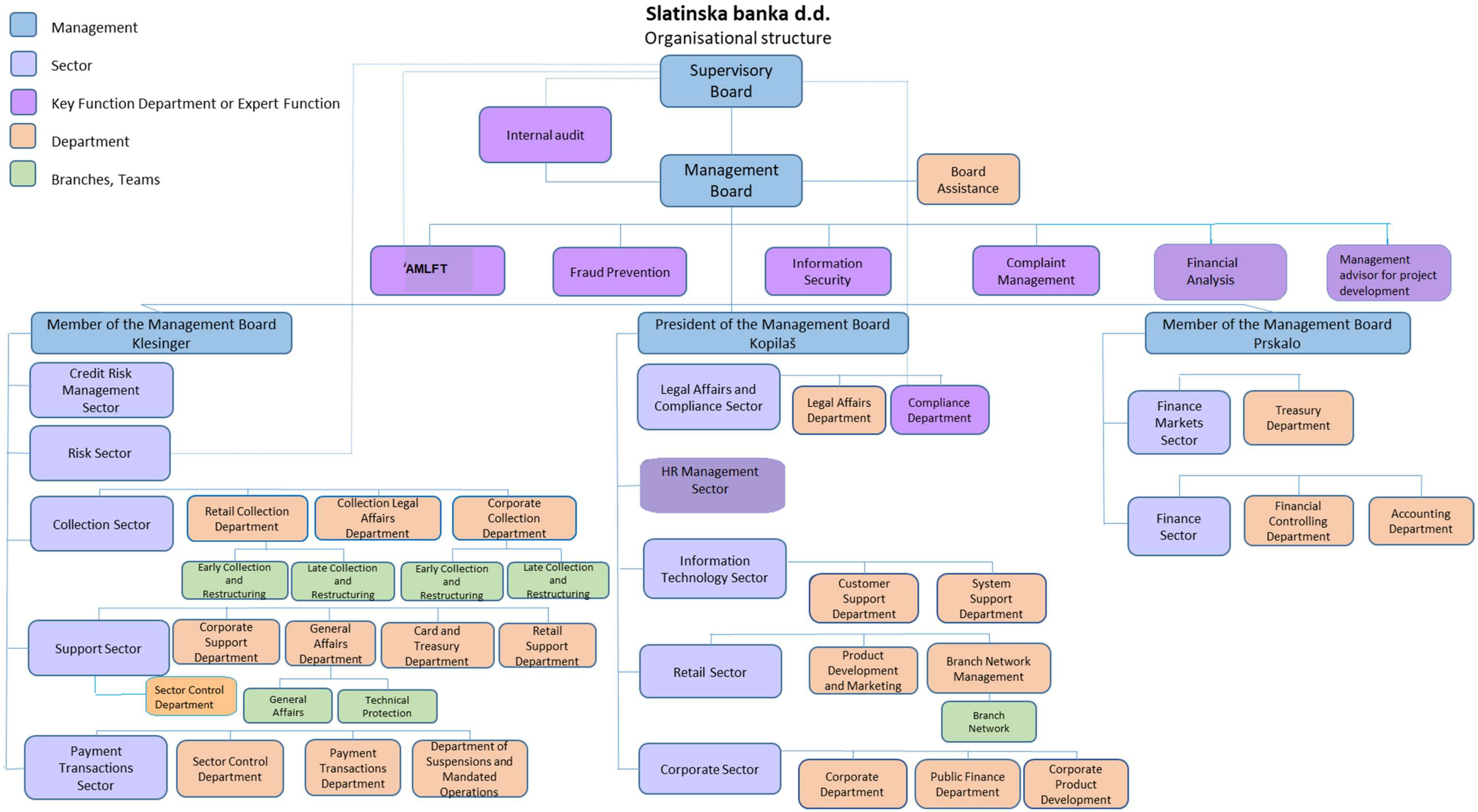
The report related to corporate sustainability will be published on the Bank's website www.slatinska-banka.hr.

INFORMATION ON SHARES

In 2022, the Bank did not repurchase its own shares.

The share of repurchased treasury shares in the share capital amounts to a total of 7.77%.

Members of the Management Board of Slatinska banka do not own shares in Slatinska banka.



Management
Sector
Key Function Department or Expert Function
Department
Branches, Teams
Slatinska banka d.d.
Organisational structure
Supervisory Board
Internal audit
Management Board
Board Assistance
AMLFT
Fraud Prevention
Information Security
Complaint Management
Financial Analysis
Management advisor for project development
Member of the Management Board Klesinger
President of the Management Board Kopilaš
Member of the Management Board Prskalo
Credit Risk Management Sector
Risk Sector
Collection Sector
Retail Collection Department
Collection Legal Affairs Department
Corporate Collection Department
Early Collection and Restructuring
Late Collection and Restructuring
Early Collection and Restructuring
Late Collection and Restructuring
Support Sector
Corporate Support Department
General Affairs Department
Card and Treasury Department
Retail Support Department
Sector Control Department
General Affairs
Technical Protection
Payment Transactions Sector
Sector Control Department
Payment Transactions Department
Department of Suspensions and Mandated Operations
Legal Affairs and Compliance Sector
Legal Affairs Department
Compliance Department
HR Management Sector
Information Technology Sector
Customer Support Department
System Support Department
Retail Sector
Product Development and Marketing
Branch Network Management
Branch Network
Corporate Sector
Corporate Department
Public Finance Department
Corporate Product Development
Finance Markets Sector
Treasury Department
Finance Sector
Financial Controlling Department
Accounting Department

Slatinska banka d.d. – Business Network

ZAGREB OFFICE Trg žrtava fašizma 2, 10 000 Zagreb Tel: 01/645-9020	BRANCH SLATINA – BANK HEADQUATERS V.Nazora 2, 33520 Slatina tel: 033/637-011
BRANCH ZAGREB Tomašićeva 2, 10000 Zagreb tel: 01/645-9005	BRANCH OSIJEK Županijska 13, 31000 Osijek tel: 031/628-205
BRANCH RIJEKA Jelačićev trg 2, 51000 Rijeka tel: 051/563-505	BRANCH VIROVITICA Trg kralja Tomislava 6, 33000 Virovitica tel: 033/637-185
BRANCH VALPOVO Trg kralja Tomislava 6, 31550 Valpovo tel: 031/628-165	BRANCH DARUVAR Kralja Tomislava 22, 43500 Daruvar tel: 043/638-305
BRANCH DONJI MIHOLJAC Vukovarska 4, 31540 D.Miholjac tel: 031/628-185	BRANCH POŽEGA Kamenita vrata 4, 34000 Požega tel: 034/638-505
BRANCH NAŠICE Trg Izidora Kršnjavog 3, 31500 Našice tel: 031/628-145	BRANCH ORAHOVICA Kralja Zvonimira 9, 33515 Orahovica tel: 033/637-145
BRANCH ĐAKOVO Stjepana Radića 9, 31400 Đakovo tel: 031/628-455	BRANCH KOPRIVNICA Dr. Željka Selingera 2a, 48000 Koprivnica tel: 048/617-105
BRANCH SLAVONSKI BROD Matije Gupca 39, 35000 Slavonski Brod tel:035/637-005	CREDIT OFFICE SPLIT Poljička cesta 16 21000 Split tel: 095/369-1635

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

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of Slatinska banka d.d., Vladimira Nazora 2, Slatina („the Bank“) is responsible for ensuring that the annual financial statements for the year 2022, are prepared in accordance with the applicable Croatian Accounting Act (OG 78/15, 134/15. 120/16. 116/18, 47/20 AND 114/22) and International Financial Reporting Standards (IFRS) as determined by the European Commission and published in the Official Journal of the EU, to give a true and fair view of the financial position, the results of operations and cash flows of the Bank for that period. The Management Board is responsible for keeping the proper accounting records, which at any time enable the preparation of financial statements and their compliance with the Accounting Act and IFRSs.

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

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

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

The Management Board is responsible for the preparation and content of the Management Board Report, Corporate Governance Statement and other information as required by the Croatian Accounting Act. It is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20, 119/21 and 108/22).

The annual financial statements on pages 9 to 79, as well as supplementary forms for the Croatian National Bank and the reconciliation of the statutory financial statements with the supplementary forms of the Croatian National Bank, set out on pages 83 to 90, and Management Board Report, the Statement on the Implementation of Corporate Governance Code and other information enclosed to these annual financial statements, are approved by the Management Board on 30 March 2023 and submitted to the Supervisory Board for approval, as confirmed by the signatures below.

Andrej Kopilaš
Predsjednik Uprave

Oliver Klesinger
Član Uprave

SLATINSKA BANKA d.d. 1

Slatinska banka d.d.
Vladimira Nazora 2
33520 Slatina
Republika Hrvatska

Slatina, 30. ožujka 2023. godine

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

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS

OPINION

We have audited the annual financial statements of Slatinska banka d.d. Slatina, Vladimira Nazora 2 („the Bank“), which comprise the Statement of Financial Position (Balance Sheet) as at 31 December 2022, the Statement of Profit or Loss, the Statement of Other Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended, and the Notes to the financial statements, including 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 2022, its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

BASIS FOR OPINION

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

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants including the International Standards of Independence issued by the International Ethics Standards Board for Accountants (IESBA Code), as well as in accordance with the ethical requirements that are relevant for our audit of financial statements in the Republic of Croatia and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

KEY AUDIT MATTERS

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the annual financial statements of the current period. We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

Key audit matter	How we addressed the key audit matter
Impairment of loans and advances to customers In the note to the Bank's annual financial statements No. 19/iii/ - Loans and advances to customers, the gross value is stated in the amount of HRK 1,043,425 thousand, the related impairment and a provision for impairment in the amount of HRK 93,770 thousand, and impairment loss recognized in profit or loss in the amount of HRK 30,41 thousand (as at 31 December 2021 Loans and advances to customers with a gross value of HRK 944,629 thousand, impairment of loans of HRK 101,733 thousand, and impairment loss of HRK 7,223 thousand). This area has been identified as a key audit matter because credit risk is the most important financial risk to which the Bank is exposed and directly affects the preservation of capital and requires significant assumptions by the Management in determining the amount of impairment. Determining the appropriate impairment uses subjective assumptions and judgments in estimating the amount of impairment provisions by the Bank's Management, which relates to determining when the impairment is recognized and the amount of the impairment. Management has performed an assessment of the entire remaining portfolio by estimating the expected credit loss (hereinafter "ECL") for individual loans in accordance with the requirements of International Financial Reporting Standard 9 (hereinafter "IFRS 9").	***Auditing procedures*** Our audit procedures in this area includes, among others: • Review of the financial asset management model, review of placement groups and the method of recording and evaluating loans; • Gaining an understanding of the functioning of the internal control system related to the process of assessing the required impairment of loans and advances to customers and related provisions for ECL, established by the Management Board; and verifying their effectiveness; • Review and assessment of the methodology for recognizing provisions for ECLs, including estimates of the probability of default (PD), loss given default (PD) and default exposure (EAD), and the appropriateness of the used macroeconomic prospective information included in the model according to available public sources;; • Evaluating the quality of used historical client financial information, business performance, expected cash flows, time required to collect the exposure, appropriateness of collateral valuation and assessment of the financial impact of collateral cashing; • Review of the classification of loans into regular loans, loans with a significant increase in credit risk and loans that require a reduction, in accordance with IFRS 9

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

KEY AUDIT MATTERS

Key audit matter	How we addressed the key audit matter
In determining the time and amount of required impairment for loans and advances to customers in its measurement model, the Management Board used subjective judgments in the following significant areas of assessment: • The level of reliance on historical data in the process of determining risk parameters, • Allocating credit risk to an appropriate level for individual and total exposure, • Assessment of changes that indicate significant deterioration that requires a change in the level of credit risk and related ECL over the life of the instrument, • Estimation of expected future cash flows from operating activities, • Estimation of collateral value and duration of its liquidation. • The Bank continuously adjusts the parameters of the model, which also requires our increased attention during the audit. Due to the financial significance of impairment provisions, their impact on the financial statements, the intensity of the use of subjective assumptions and judgments in estimating the amount of impairment provisions required, and the complexity of the valuation models used; we concluded that impairment as the consequence of impairment provisions and connected loans and advances to customers is our key audit issue during the audit of the Bank's financial statements for the year ended 31 December 2022	• Assessment of the adequacy of disclosures in relation to International Financial Reporting Standards For impairment determined on an individual basis we: • selected a sample of loans with the highest amount and the highest risk, by individual characteristic groups of placements, • reviewed the adequacy of the criteria used to determine the significant deterioration of credit risk and the accuracy of financial information to identify loans where there is a need for impairment, recalculation or critical review of the assessment of financial position and performance, expected future cash flows, time required for collection, appropriateness of collateral valuation and assessment of financial performance from collateral realization. For impairment determined on an aggregate basis we: • assessed the appropriateness of the definition of loss occurrence and criteria for determining the level and consistency of its application;, • assessed the appropriateness of measuring the required impairment for ECL through the acceptability of assessing financial position and performance, estimating expected future cash flows, the time required to collect exposures, the appropriateness of valuing collateral and assessing the financial impact of using collateral to collect outstanding exposures, • reviewed the assumptions used in the model on a sample of exposures, we considered the appropriateness of the forward-looking information included in the ECL calculation model using publicly available information, we checked the accuracy of the contract data used to verify EAD, we checked historical data to verify LGD and PD, and criteria for classification into levels; • discussed the results of the back testing with the responsible persons and requested clarifications for recognized materially significant deviations

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REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

KEY AUDIT MATTERS

Key audit matter	How we addressed the key audit matter
Related disclosures in the annual financial statements See Notes to the financial statements III - Summary of accounting policies, 3.9. - Financial assets; 13. – Impairment and reversal of impairment; 19. - Loans and advances to customers, 37. - Credit risk, and VI - Financial risk management	For total impairment we: • critically assessed the adequacy of overall impairment provisions, including the proportion of gross non-performing exposures in total gross exposure and the level of coverage of non-performing exposure provisions; • checked the appropriateness of quantitative and qualitative disclosures in annual financial statements about credit risks

OTHER INFORMATION IN THE ANNUAL REPORT

The Management is responsible for other information. Other information includes Management Report and the Corporate Governance Statement included in the Annual Report, but do not include annual financial statements and our auditor's opinion thereon. Our opinion on the financial statements does not include other information.

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

In connection with the Bank's Management Report and the Corporate Governance Statement, we also performed the procedures prescribed by the Accounting Act. These procedures include checking whether the Management Report has been drawn up in accordance with Article 21 of the Accounting Act and whether the Statement on the Application of the Corporate Governance Code contains information from Article 22 of the Accounting Act. Based on the procedures performed, to the extent possible, we report that in all significant respects:

- the information in attached Management Report and the Corporate Governance Statement is, in all material aspects, aligned with the attached annual financial statements;
- the Management Report of the Bank is prepared in accordance with Article 21 of the Accounting Act:
- the Statement on the Application of the Corporate Governance Code includes the information specified in Article 22 of the Accounting Act.

Based on the knowledge and understanding of the Bank's operations and its environment acquired within the audit of the annual financial statements, we are obliged to report if we have established that there are significant misrepresentations in the attached Management Report and Statement on the Application of the Corporate Governance Code. In that sense, we have nothing to report.

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

OTHER INFORMATION IN THE ANNUAL REPORT (CONTINUED)

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

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

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

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

Those charged with governance are responsible for overseeing the Bank’s financial reporting

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

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

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

- identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS (continued)

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- make conclusion on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- On 27 June 2022, the Bank's General Assembly appointed us to perform the audit of the annual financial statements for 2022 at the proposal of the Supervisory Board. For the first time, we were appointed as auditors of the Bank for 2019.
- As of the date of this report, we have been continuously engaged in performing statutory audits of the Bank since the audit of the annual financial statements for the year 2019, which amounts to a total of four years.
- Our audit opinion is consistent with the additional report to the Bank's Audit Committee that we issued on 30 March 2023, in accordance with Article 11. Regulation (EU) No. 537/2014 of the European Parliament and the Council.
- During the period between the initial date of the Bank's audited financial statements for the year 2022 and the date of this Report, we did not provide the Bank with prohibited non-audit services, and in the business year prior to the aforementioned period, we did not provide services for the design and implementation of internal control procedures or risk management related to the preparation and/or control of financial information or the design and implementation of technological systems for financial information, and in performing the audit we preserved independence in relation to the Company.
- Along with the legal audit, we provided the Bank with the service of providing a limited certificate on the determination of profit for the period from 1 January to 30 June 2022.
- On the basis of the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18, 122/20, 119/21 and 108/22; hereinafter referred to as the "Decision"), the Management Board created the forms that are presented on pages 83 to 90, under the headings Statement of Financial Position (Balance Sheet) as of 31 December 2022, Income Statement, Statement of Cash Flow and Changes in the Bank's Equity for the year then ended, together with information on the reconciliation with the Bank's financial statements. The Management Board is responsible for the preparation of these forms and information on reconciliations with the Bank's annual financial statements, and they do not constitute an integral part of these annual financial statements; but contain the information prescribed by the Decision. The financial information in the forms is based on the audited annual financial statements of the Bank, which were prepared in accordance with the legal requirements for bank accounting in the Republic of Croatia, are presented on pages 83 to 90 and are adapted to the requirements of the Decision.
- The engaged partner in the audit of the Bank's annual financial statements for the year ended 31 December 2022, resulting in this Independent Auditor's Report, is Jeni Krstičević, a certified auditor.

PKF Fact Revizija

Zagreb, 30 March 2023

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

Irena Kovačić, dipl. oec.
Članica uprave

Jeni Krstičević
univ.spec.oec.rra.
Ovlašteni revizor

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SLATINSKA BANKA d.d., Slatina
STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2022

P O S I T I O N	**Note**	**2022**	**2021**
		HRK '000	HRK '000
Interest income	4	54,127	52,668
Interest expenses	5	(2,545)	(3,411)
Net interest income		**51,582**	**49,257**
Fee and commission income	6	13,451	12,614
Fee and commission expenses	7	(3,853)	(3,841)
Net fee and commission income		**9,598**	**8,773**
Income from dividends			
Net gains (losses) on derecognition of financial assets and liabilities at fair value through other comprehensive income	8(a)	50	160
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	8(b)	(15)	(224)
Net gains (losses) on financial assets and liabilities that are measured at fair value through profit or loss	8(c)	2,131	2,006
Net income from exchange rate differences	8(d)	73	54
Other operating income	9	215	1,232
Other operating expenses	10	(279)	(931)
Gross margin (Net trading profit and other income)		**63,355**	**60,327**
Administrative expenses	11	(45,528)	(42,762)
Contributions in cash to resolution committees	10(a)	(1,399)	(8)
Depreciation	12	(4,141)	(4,066)
Operating expenses		**(51,068)**	**(46,836)**
Profit before impairment and other provisions		**12,287**	**13,491**
Provisions (or cancellation of provisions)		(401)	260
Impairment or impairment reversal of financial assets not measured at fair value through profit or loss		(3,073)	(8,653)
Other impairment losses and provisions		(32)	0
Impairment and provisions expenses	13	**(3,506)**	**(8,393)**
Profit before tax		8,781	5,098
Profit tax liability	14	(2,488)	(1,227)
Differed tax expense		(199)	(135)
Tax expense		(2,687)	(1,362)
Net profit for the year		**6,094**	**3,736**

SLATINSKA BANKA d.d., Slatina
STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2022

P O S I T I O N	Note	2022	2021
		HRK '000	HRK '000
Profit for the year		**6,094**	**3,736**
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity instruments measured at fair value through other comprehensive income, net of taxes		310	1,805
Items that can be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income, net of taxes		(18,261)	(413)
Other comprehensive income		**(17,951)**	**1,392**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(11,857)**	**5,128**

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

SLATINSKA BANKA d.d., Slatina
STATEMENT OF FINANCIAL POSITION / BALANCE SHEET as at 31 December 2022

POSITION	Note	31 Dec 2021	31 Dec 2022
		HRK '000	HRK '000
ASSETS			
Cash and cash equivalents	15	356,467	336,245
Financial assets at fair value through profit or loss	16	0	1,521
Financial assets at fair value through OCI	17	216,911	232,047
Financial assets at amortized cost	18	15,426	0
Receivables from the Croatian National Bank	19	2	69,884
Loans and receivables from banks	19	5,156	6,268
Loans and advances to customers	19	949,655	842,895
Property, plant and equipment	20	22,944	21,936
Intangible assets	21	19,092	14,575
Deferred tax assets	22	1,100	1,464
Other assets	23	8,978	8,285
Total assets		**1,595,731**	**1,535,120**
LIABILITIES AND EQUITY			
LIABILITIES			
Current accounts and deposits of customers and banks	24	1,323,755	1,249,464
Liabilities for received loans	24	87,239	91,169
Lease liabilities and other financial liabilities	25	2,645	1,729
Provisions for liabilities and expenses	26	4,906	4,505
Current tax liability	27	1,475	474
Other liabilities	28	15,259	15,470
Total liabilities		**1,435,279**	**1,362,811**
EQUITY	29		
Share capital		91,897	91,897
Share premium		149	149
Fair value reserves		(17,107)	844
Other reserves		16,101	15,182
Reserves on own shares		(6,592)	(6,592)
Retained earnings		76,004	70,829
Total equity		**160,452**	**172,309**
Total liabilities and equity		**1,595,731**	**1,535,120**

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

SLATINSKA BANKA d.d., Slatina
STATEMENT OF CASH FLOWS for the year ended 31 December 2022
INDIRECT METHOD

POSITION	2022	2021
	HRK '000	HRK '000
Operating activities and adjustments		
Profit before tax	8,781	5,098
Changes in equity	(17,951)	1,392
Impairment losses and provisions	3,506	8,393
Depreciation	4,141	4,066
Net unrealized (gain) / loss on financial assets and liabilities at fair value through profit or loss	(15)	(224)
Interest paid	(652)	(691)
Interest collected	1,790	1,520
Profit tax paid	(409)	0
Changes in assets and liabilities from operating activities		
Financial assets at fair value through profit or loss	1,536	(367)
Financial assets at fair value through OCI	15,127	(35,793)
Financial assets at amortized cost	(15,481)	(697)
Receivables from the Croatian National Bank	69,882	1,913
Loans and receivables from banks	1,112	(9,789)
Loans and advances to customers	(109,771)	46,616
Other assets from operating activities	641	(706)
Increase/decrease in operating liabilities		
Current accounts and deposits of customers and banks	74,291	39,959
Other liabilities	(3,626)	(8,335)
A) Net cash flows from operating activities	**32,902**	**52,355**
Financing activities		
Proceeds from sale / payments for purchase / tangible and intangible assets and leases - IFRS 16	(9,666)	(7,123)
Repayment of loans received (Liabilities for received loans)	(3,930)	(8,147)
Proceeds (expenditures) under leases – MSFI 16	916	(596)
B) Net cash flows from financing activities	**(12,680)**	**(15,866)**
C) Net increase / decrease in cash and cash equivalents	**20,222**	**36,489**
Cash and cash equivalents at the beginning of the year	**336,245**	**299,756**
Cash and cash equivalents at the end of the year	**356,467**	**336,245**

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

SLATINSKA BANKA d.d., Slatina

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2022

	Share capital	Own shares	Accumulated other comprehensive income (loss)	Capital gain	Reserves: Legal reserves	Reserves: Reserves for own shares*	Reserves: Other reserves	Retained earnings	Profit/loss for the year	Total
	HRK '000	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	***HRK '000***
Balance at 1 January 2021	**91,897**	**(6,592)**	**(548)**	**149**	**4,729**	**7,425**	**3,028**	**65,737**	**1,356**	**167,181**
Allocation of profit 2020	0	0	0	0	0	0	0	1,356	(1,356)	**0**
Other comprehensive income for the current year	0	0	1,392	0	0	0	0	0	0	**1,392**
Profit for the current period	0	0	0	0	0	0	0	0	3,736	**3,736**
Balance at 31 December 2021	**91,897**	**(6,592)**	**844**	**149**	**4,729**	**7,425**	**3,028**	**67,093**	**3,736**	**172,309**
Allocation of profit 2021	0	0	0	0	0	919	0	2,817	(3,736)	**0**
Other comprehensive income for the current year	0	0	(17,951)	0	0	0	0	0	0	**(17,951)**
Profit for the current period	0	0	0	0	0	0	0	0	6,094	**6,094**
Balance at 31 December 2022	**91,897**	**(6,592)**	**(17,107)**	**149**	**4,729**	**8,344**	**3,028**	**69,910**	**6,094**	**160,452**

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

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

I GENERAL INFORMATION

1.1. Legal framework and activities

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

The Bank is registered to perform transactions with foreign means of payment in the country, perform monetary intermediation, receive all types of deposits, give all types of loans, open documentary letters of credit, issue bank guarantees, perform transactions with bills, checks, lending, selling and buying for own account or for the account of its clients, perform securities' transactions for its own account or for the account of other persons, issue and manage means of payment, perform financial leasing and factoring operations, provide information on clients' creditworthiness at their request, perform foreign payment operations and international transactions, payment transactions in the country, provision of representation services in the sale of insurance policies, provision of other financial services.

The share capital of the Bank as at 31 December 2022 amounts to HRK 91,897 thousand and is divided into 918,972 shares, with a nominal value of HRK 100.00 each.

1.2. Governance and Management

Bank's governing bodies are the Management Board, the Supervisory Board and the General Assembly.

Members of the Management Board during 2022:

1. Andrej Kopilaš, member of the Management Board (from 20 July 2017 to 10 April 2018); represents the Bank individually and independently by Decision of the Supervisory Board of 16 January 2018; President of the Management Board from 10 April 2018 for a term of office until 19 July 2024)
2. Oliver Klesinger, member of the Management Board (from 14 November 2019 for a term of office until 19 July 2024)
3. Marin Prskalo, member of the Management Board (from 20 July 2017 to 21 March 2023)

On the date of signing this report, the members of the Management Board are:

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

Members of the Supervisory Board are:

1. Domagoj Petrinović, President of the Supervisory Board (from 1 July 2022)
2. Domagoj Karačić, member of the Supervisory Board (from 26 August 2020)
3. Anita Zelić, member of the Supervisory Board from (from 1 July 2022),
   Dušan Banović, President of the Supervisory Board (from 6 September 2018 to 30 June 2022),
   Srećko Vukić, member of the Supervisory Board (from 6 September 2018 to 30 June 2022)

On 31 December 2022, the Bank had 179 employees (184 employees on 31 December 2021).

II BASIS OF PREPARATION

2.1. Statement of compliance and basis of preparation

The annual financial statements have been prepared in accordance with the legal accounting regulations for banks in the Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act (OG 153/09, 19/15, 102/15, 15/18, 70/19, 47/20, 146/20 and 151/22), according to which the Bank's financial reporting is determined by the Croatian National Bank ("CNB"), which is the central supervisor of the banking system in Croatia. These financial statements have been prepared in accordance with the above banking regulations.

The CNB's accounting regulations are based on International Financial Reporting Standards (IFRS), which include International Accounting Standards (IAS), their amendments and related interpretations, and International Financial Reporting Standards (IFRS), their amendments and related interpretations, which are established by the European Commission and published in the Official Journal of the European Union and which were in force on 31 December 2022.

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

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

1.2. Basis of measurement

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

II BASIS OF PREPARATION (continued)

2.3. Uncertainty of estimates and impact of judgments

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

- the effects of the COVID-19 pandemic,
- losses from loans and receivables,
- profit tax and
- provisions for litigation.

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

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

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

2.4. Functional and reporting currency

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Changes in accounting policies

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended International Financial Reporting Standards

Standards and interpretations in force in the current period

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

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

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

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

Amendments to IAS 1: Presentation of financial statements and publication of accounting policies:

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is the exemption from initial recognition specified in IAS 12.15(b) and IAS 12.24. Accordingly, the exemption from initial recognition does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise upon initial recognition.

Companies shall apply the amendments to IAS 12 at the latest from the beginning of their first financial year starting on or after 1 January 2023.

IFRS 17: Insurance contracts

IFRS 17 completely replaces the previously valid IFRS 4, and the full application of the new standard becomes effective for annual periods beginning on or after 1 January 2023.

IFRS 17 effectively solves the comparability problems caused by IFRS 4: it requires all insurance contracts to be accounted for in a consistent and transparent manner, which greatly benefits both investors and insurance companies.

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

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

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

The subject of the new standard for insurance contracts published on 18 May 2017, which comes into force for annual periods beginning on or after 1 January 2023, is the presentation of assets and liabilities arising from insurance contracts in financial statements prepared in accordance with IFRS. Companies apply IFRS 17 no later than the beginning of their first financial year beginning on or after 1 January 2023.

Amendments to IFRS 17 have not yet been adopted at the level of the European Union. The Management Board estimated that the above will not have an effect on the Bank's financial statements.

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2. Interest income and expenses

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

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

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

These income and expenses are recognized in the income statement as interest income or interest expense. Interest income and expense also include income and expenses from fees and commissions related to loans and receivables from customers and banks, borrowings, finance leases, and debt securities issued, amortization of premiums or discounts, as well as other fees between the initial carrying value of the interest-bearing financial instrument and its value at maturity, which are recognized using the effective interest rate method. Interest income on debt securities at fair value through profit or loss is recognized at the nominal interest rate and is included in interest income. If the loan is value-adjusted due to the expected credit loss, i.e. in the amount of its estimated recoverable amount, interest income is recognized based on the interest rate used to discount future cash flows to measure the recoverable amount.

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Fee and commission income and expenses

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

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

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

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

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

3.5. Employee benefits

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

	2022	2021
Pension insurance contribution	20.0%	20.0%
Health insurance contribution	16.5%	16.5%

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Severance pay and jubilee awards

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

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

3.6. Foreign currency translation

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

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

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

3.7. Taxation

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

Current taxes

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

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

Deferred tax

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Cash and cash equivalents

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

3.9. Financial assets

Financial assets are assets that are:

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

Classification of financial assets

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

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

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

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

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

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

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

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

- Financial assets are held within the business model whose goal is achieved by collecting contractual cash flows and selling financial assets or business model for collection and sale
- Based on the contractual terms of financial assets, cash flows arise on certain dates that are only the payment of principal and interest on the outstanding principal amount.

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

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

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

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

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

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

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

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

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

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

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

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

Exposure is divided into the following homogeneous groups:

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

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

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

The following macroeconomic indicators are used in the calculation

- Gross domestic product
- Unemployment rate
- Inflation rate

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

III **<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)</u>**

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

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

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

Financial assets are initially stated at cost, including transaction costs. Acquisition cost represents the fair value of assets given for a financial asset or received for financial liability.

Subsequent to initial recognition, all financial assets at fair value through other comprehensive income and which are measured at fair value through profit or loss are stated at fair value at the balance sheet date.

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

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

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

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

<u>Impairment loss on financial assets</u>

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated.

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The recoverable amount of a financial asset measured at amortized cost is calculated as the present value of expected future cash flows, discounted at the instrument's original effective interest rate. If future cash flows are expected within one year from the balance sheet date, the cash flows need not be discounted.

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

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

Derecognition of financial assets

Financial assets are derecognised when the Bank ceases to have control over the contractual rights to the assets, or when the rights are exercised, matured or transferred.

A financial liability is derecognised if the contractual obligation has been settled, adjusted or expired.

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

Special financial instruments

Investments in debt securities

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

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Investments in equity securities

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

Equity securities are classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss.

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

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

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

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

The sale of a part of the portfolio of certain equity security is recorded at the carrying amount of the investment. When an investment is sold, the difference between the net investment income and the carrying amount of the investment is recognized as a gain or loss on the sale.

Loans to banks and customers

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

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. Depending on the degree of collection and quality of the collateral, Bank's on-balance sheet and off-balance sheet receivables are allocated to the appropriate groups A1, A2, B, and C in accordance with the provisions of the Decision on the classification of placements and off-balance sheet liabilities of credit institutions in accordance with IFRS 9.

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 statement of profit or loss.

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

Total placements and contingent liabilities classified in 2022 increased from HRK 1,685,908 thousand to HRK 1,6718,329thousand, which consequently increased allowances for Stage 1 exposures for HRK 2,597 and decrease in allowances for Stage 2 exposures by HRK 863 thousand and Stage 3 by HRK 9,346 thousand due to write-off of non-performing loans.

Exposure and impairment	31 Dec 2022	31 Dec 2021	Change 2022-2021
1. Total impairments for exposures and provisions for contingent liabilities	95,467	103,079	(7,612)
1.1. Exposure impairments and provisions for contingent liabilities STAGE 3	83,108	92,454	(9,346)
1.2. Impairments and provisions STAGE 2	2,141	3,004	(863)
1.3. Impairments and provisions STAGE 1	10,218	7,621	2,597
2. Total exposures and contingent liabilities	1,718,269	1,695,908	22,361
3. Relative ratio (%): total impairments and provisions / total exposures and contingent liabilities	5.56	6.08	(0.52)

In 2022, the Bank reduced the portfolio of NPLs (non-performing loans) both by sector and in total. The coverage of total placements in Stage 3 on 31 December 2022 is 55.17%, while on 31 December 2021, it was 59.37%. The share of NPL by loan principal on 31 December 2022 was 10.14%, while on 31 December 2021, it was 12.68%. The share of NPLs by exposures classified as of 31 December 2022 is 8.77%, while it was 9.18% as of 31 December 2021.

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Fair value of financial instruments

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

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

3.11. Property, plant and equipment

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

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

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

DESCRIPTION	2022 Estimated useful life	2021 Estimated useful life
Buildings	40-50	40-50
Computer equipment	4	4
Furniture	5	5
Personal vehicles	2,5	2,5
Other equipment	4-10	4-10

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

Gains or losses arising from the disposal or disposition of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognized in profit or loss.

Residual (present) value, useful life and depreciation methods are reviewed at the end of each financial year and adjusted, if appropriate.

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Intangible assets

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

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

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

	2022 **Estimated useful life**	**2021** **Estimated useful life**
Software	4-10	4-10
Other intangible assets	2-5	2-5

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

3.13. Foreclosed tangible assets

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

3.14. Share capital and reserves

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Commitments and contingencies

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

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

3.16. Statement of cash flows

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

3.17. Operating segments

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

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

3.18. Legal environment

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

3.19. Significant estimates and judgements

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

III SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The estimate of provisions for credit losses represents the best estimate of the management of the risk of default and expected credit losses on financial assets for balance sheet items but also for receivables on excluded interest recognized in off-balance-sheet records. On-balance sheet and off-balance sheet exposures are included in the Bank's total exposure to the client. The Bank's placements are mostly secured by collateral, of which the most significant is real estate. The assessment of the value of the real estate is the best assessment of the Management Board, but there is uncertainty in that assessment. Historical transactions, as well as transactions in 2021, confirmed that the realized values of real estate in foreclosures are higher than the Management Board's estimates in line with CNB regulations and recognized in the financial statements.

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

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

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

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

IV NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Interest income

Description	2022 HRK '000	2021 HRK '000
Companies	19,571	16,126
Natural persons and craftsmen	32,701	34,637
Credit institutions	84	5
Other	1,771	1,900
Total	**54,127**	**52,668**

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

Description	2022 HRK '000	2021 HRK '000
Non-traded financial assets that are measured at fair value through profit or loss	52	87
Financial assets at fair value through other comprehensive income - debt securities	1,384	901
Financial assets - debt securities at amortized cost	216	39
Financial assets - loans and advances at amortized cost	52,475	51,641
Total	**54,127**	**52,668**

5. Interest expenses

Description	2022 HRK '000	2021 HRK '000
Companies	67	95
Natural persons and craftsmen	1,978	2,809
Credit institutions	281	206
Other	219	301
Total	**2,545**	**3,411**

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

Description	2022 HRK '000	2021 HRK '000
Financial liabilities at amortized cost	2,203	3,302
Interest expenses on lease liabilities	66	97
Interest expenses on financial assets	276	12
Total	**2,545**	**3,411**

6. Fee and commission income

Description	2022 HRK '000	2021 HRK '000
Corporate (fee income)	4,572	3,915
Retail	6,993	6,904
Other (fee income)	1,886	1,795
Total	**13,451**	**12,614**

7. Fee and commission expenses

Description	2022 HRK '000	2021 HRK '000
Commission for FINA services	1,817	1,808
Foreign institutions	372	269
Domestic banks and clients	1,664	1,764
Total	**3,853**	**3,841**

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

Description	2022 HRK '000	2021 HRK '000
Profit from activities in the category of assets measured at fair value through other comprehensive income	50	160
Total	**50**	**160**

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

Description	2022 HRK '000	2021 HRK '000
Net unrealized loss on financial assets and liabilities at fair value through profit or loss	(15)	(224)
Total	**(15)**	**(224)**

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

Description	2022 HRK '000	2021 HRK '000
Net exchange differences arising on the purchase and sale of foreign currency	2,131	2,006
Total	**2,131**	**2,006**

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

Description	2022 HRK '000	2021 HRK '000
Net exchange differences due to the reduction of foreign exchange positions of the balance sheet to the exchange rate	(930)	1,234
Net exchange differences due to the reduction of positions with a currency clause to the agreed exchange rate	1,003	(1,180)
Total	**73**	**54**

9. Other operating income

Description	2022 HRK '000	2021 HRK '000
Gains from sale of tangible assets	14	170
Collection of adjusted income	0	732
Other	201	330
Total	**215**	**1.232**

10. Other operating expenses

Description	2022 HRK '000	2021 HRK '000
Cost of tangible asset sale	114	74
Other	165	857
Total	**279**	**931**

10. a Cash contributions to resolution committees and deposit insurance schemes

Description	2022 HRK '000	2021 HRK '000
Cash contributions to resolution committees and deposit insurance schemes	1,399	8
Total	**1,399**	**8**

11. Administrative expenses

Description	2022 HRK '000	2021 HRK '000
Employee costs /i/	28,754	27,553
Compensation to the members of Supervisory Board	271	271
Other administrative expenses /ii/	16,503	14,938
Total	**45,528**	**42,762**

/i/ Employee costs are as follows:

Description	2022 HRK '000	2021 HRK '000
Net salaries	15,637	15,240
Contributions from and on salaries	7,583	7,375
Tax and surtax	1,894	1,796
Other employee benefits	3,640	3,142
Total	**28,754**	**27,553**

/ii/ Other administrative costs were as follows:

Description	2022 HRK '000	2021 HRK '000
Cost of material	2,036	1,408
Cost of services	12,550	12,209
Entertainment, advertising and promotion	1,224	637
Other	693	684
Total	**16,503**	**14,938**

12. Depreciation

Description	2022 HRK '000	2021 HRK '000
Depreciation of leased assets (Note 20)	702	922
Depreciation of property, plant and equipment (Note 20)	2,038	1,879
Amortisation of intangible assets (Note 21)	1,401	1,265
Total	**4,141**	**4,066**

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

Description	2022 HRK '000	2021 HRK '000
Value adjustment of financial assets:	**3.073**	**8.653**
- financial assets valued through other comprehensive income (note 17)	9	(467)
- financial assets - debt securities valued at amortized cost / held to maturity (note 18)	55	1,454
- financial assets at amortized cost / loans and advances (CNB, credit institutions, clients) and cash	*3,062*	*7,709*
- Cash (note 15)	20	486
- Loans and advances (note 19)	3,042	7,223

- Collected receivables- previously written off	(53)	(43)
Impairment of non-financial assets (notes 20, 21, 22 i 23)	***32***	***0***
Provisions or reversal of provisions	**401**	**(260)**
Provisions for litigation (note 27)	102	89
Other provisions (note 27)	0	0
Provisions for contingent liabilities (note 27)	299	(349)
Total	**3,506**	**8,393**

14. Profit tax

Tax calculation for the given period is as follows:

	2022	**2021**
D e s c r i p t i o n	**HRK '000**	**HRK '000**
Accounting profit before tax	8,781	5,098
Items increasing tax base	5,178	2,803
Items decreasing tax base	(134)	(1,086)
Profit/loss after increase and decrease	**13,825**	**6,815**
Tax loss carried forward	0	0
Tax base	13,825	6,815
Profit tax rate	18%	18%
Profit tax liability	**(2,488)**	**(1,227)**
Deferred tax cost	(199)	(135)
Tax expense	(2,687)	(1,362)

Profit tax is calculated in accordance with Croatian regulations. The tax rate on taxable profit is 18% (2021: 18%). As of 31 December 2022, the profit tax liability is HRK 2,488 thousand (as of 31 December 2021, the tax liability was HRK 1,227 thousand).

Deferred tax assets based on deferred income from deferred fees for loans and securities on 31 December 2022 amounted to HRK 1,100 thousand (on 31 December 2021 it was HRK 949 thousand), and on 31 December 2022 there is no deferred tax asset based on unrealized loss from financial assets at fair value through P/L (as of 31 December 2021, it was HRK 515 thousand.)

V NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and cash equivalents

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Giro account	253,282	128,791
Cash in hand		
- kunas	34,931	15,067
- foreign currencies	4,719	5,784
Cash in foreign currency current accounts of foreign banks	5,492	3,822
Cash in foreign currency current accounts of domestic banks	23,229	19,093
Foreign currency current account with the CNB	25,386	163,795
Other deposits with the CNB	9,591	36
Total	**356,630**	**336,388**
Impairment	(163)	(143)
Total	**356,467**	**336,245**

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

Balance as at 1 January 2021	(629)
Changes in credit risk (net) - Note 13	486
Balance as at 31 December 2021	(143)
Changes in credit risk (net) - Note 13	(20)
Balance as at 31 December 2022	(163)

16. Financial assets at fair value through profit or loss

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Deposit certificates	0	275
Bonds	0	1,246
Total	**0**	**1,521**

In 2022, securities were sold in the portfolio of non-traded financial assets that are mandatorily measured at fair value through the profit and loss (as of 31 December 2021, they amounted to HRK 1,521 thousand).

17. Financial assets at fair value through other comprehensive income

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Equity instruments - Investments in equity securities	141	2,241
Debt instruments - Bonds of the Republic of Croatia	153,140	183,294
Debt instruments - Foreign government bonds	7,347	7,613
Debt instruments - Treasury bills of the Republic of Croatia	45,825	31,183
Debt instruments - Company bonds	9,717	6,911
Investments in other assets	741	805
Total	**216,911**	**232,047**
Associated provisions for expected credit losses for debt securities	(143)	(134)

/i/ Equity instruments

Equity instruments measured at fair value through other comprehensive income as of 31 December 2022 amount to HRK 141 thousand (as of 31 December 2021, it amounted to HRK 2,241 thousand). The share in the company is not listed on the stock exchange.

In 2021, the realized gain from equity securities of financial assets at fair value through other comprehensive income amounts to HRK 1,805 thousand and is reported in other comprehensive income until a decision is made to transfer the loss to retained earnings.

/ii/ Debt instruments

Debt securities as of 31 December 2022 amount to HRK 216,770 thousand (as of 31 December 2021 they amounted to HRK 229,001 thousand). They consist of bonds of the Republic of Croatia, bonds of EU countries, treasury bills of the Ministry of Finance of the Republic of Croatia and bonds of commercial companies. Government bonds are listed on the stock exchange, but treasury bills and corporate bonds are not.

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

Balance as at 1 January 2021	(601)
Changes in credit risk (net) - Note 13	467
Balance as at 31 December 2021	(134)
Changes in credit risk (net) - Note 13	(9)
Balance as at 31 December 2022	(143)

18. Debt securities valued at amortized cost

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Government bonds – Republic of Croatia	5,318	0
Company bonds	10,163	
Value adjustment	(55)	0
Total	**15,426**	**0**

Debt securities in the portfolio of financial assets measured at amortized cost include bonds of the Republic of Croatia and bonds of commercial companies that are intended to be held to maturity.

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

Description	2022 HRK '000	2021. HRK '000
Balance at 1 January	0	(1,454)
Net value adjustment Stage 1	(55)	5
Net value adjustment - Stage 2	0	1,449
Balance at 31 December	**(55)**	**0**

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

Value adjustment	Stage 11	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(5)	(0)	(1,449)	(1,454)
Changes in credit risk (net) - Note 13	5	0	1,449	1,454
Balance as at 31 December 2021	0	0	0	0
Changes in credit risk (net) - Note 13	(55)	0	0	(55)
Balance as at 31 December 2022	(55)	0	0	(55)

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

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Receivables from Croatian National Bank /i/	2	69,884
Placements with credit institutions /ii/	5,156	6,268
Loans and advances to clients /iii/	949,655	842,895
Total	**954,813**	**919,047**

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

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Reserve requirement	0	69,914
Other receivables	2	2
Value adjustment	0	(32)
Total	**2**	**69,884**

Until 31 December 2022, Banks had the obligation to set aside mandatory reserves in the form of deposits with the CNB and to maintain them through the balance of other liquid claims.

It was set aside in the form of deposits with the CNB and maintained through other liquid receivables. The required reserve ratio in 2022 was 9% until 10 August and then 5% until 14 December, and from then it was 1% until the end of the year (2021: 9%) of short-term and long-term deposits and taken loans.

During 2022, the percentage of allocation of the kuna part of the reserve requirement at the CNB was 70% (2021: 70%), while the remaining 30% (2021: 30%) was maintained in the form of other liquid receivables. This also included the foreign currency part (75%) of the requirement, which had to be kept in HRK (2021: 75%) and was an integral part of the reserve requirement in Kuna.

During 2022, 100% of the foreign currency part of the reserve requirement was held in the form of other liquid receivables (2021: 100%).

The reserve requirement was not interest-bearing in 2022 (it was not interest-bearing in 2021 either).

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

/ii/ Placements with credit institutions were as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Short-term deposits with domestic banks	915	913
Short-term deposits with foreign banks	4,239	5,315
Receivables based on card business	3	41
Other	36	36
	5,193	**6,305**
Value adjustment	**(37)**	**(37)**
Total	**5,156**	**6,268**

/iii/ Loans and advances to clients are as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Companies	422,755	345,111
Natural persons and craftsmen	611,151	571,228
Other	9,519	28,290
Impairment of loans	(93,770)	(101,734)
Total	**949,655**	**842,895**

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

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

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Manufacturing	107,607	80,448
Trade	35,478	37,923
Tourism	27,898	34,191
Agriculture	26,998	35,561
Construction	42,494	36,568
Services	182,280	142,479
Retail	611,151	571,228
Other	9,519	6,231
Total	**1,043,425**	**944,629**
Impairment and provision for losses on loans	(93,770)	(101,733)
Total	**949,655**	**842,895**

- *Financial assets at amortised cost – loans and advances in phases – 31 December 2022*

Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Central bank	2	0	0	2
Credit institutions	5,157	0	36	5,193
Trading companies	326,494	25,440	70,821	422,755
Retail	532,526	6,082	72,543	611,151
Other	8,634	3	882	9,519
Total	**872,813**	**31,525**	**144,282**	**1,048,620**

Impairment	Stage 1	Stage 2	Stage 3	Total
Central bank	(0)	0	0	(0)
Credit institutions	(1)	0	(36)	(37)
Trading companies	(1,702)	(928)	(24,938)	(27,568)
Retail	(6,992)	(1,199)	(57,364)	(65,555)
Other	(33)	(0)	(614)	(647)
Total	**(8,728)**	**(2,127)**	**(82,952)**	**(93,807)**

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

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

Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Central bank	69,915	0	0	69,915
Credit institutions	6,270	0	36	6,306
Trading companies	234,058	39,289	71,765	345,112
Retail	483,139	5,367	82,721	571,227
Other	26,963	439	887	28,289
Total	**820,345**	**45,095**	**155,409**	**1,020,849**

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

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

Impairment	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	**(8,885)**	**(1,765)**	**(119,854)**	**(130,503)**
Changes in credit risk (net) - Note 13	2,505	(1,228)	(8,500)	(7,223)
Exchange rate differences	0	0	(27)	(27)
Write-offs	0	0	35,952	35,952
Balance as at 31 December 2021	**(6,380)**	**(2,993)**	**(92,429)**	**(101,802)**
Changes in credit risk (net) - Note 13	(2,348)	866	(1,560)	(3,041)
Exchange rate differences	0	0	(124)	(124)
Write-offs	0	0	10,168	10,168
Other	0	0	993	993
Balance as at 31 December 2022	**(8,728)**	**(2,127)**	**(82,952)**	**(93,807)**

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

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

	31 Dec 2022	31 Dec 2021
D e s c r i p t i o n	**HRK '000**	**HRK '000**
Balance 1 January	(101.802)	(130.503)
Net value adjustment – Stage 1	(2.348)	2.505
Net value adjustment – Stage 2	866	(1.228)
Net value adjustment – Stage 3	9.477	27.424
Balance 31 December	**(93.807)**	**(101.802)**

20. Property, plant and equipment

Description	Land	Buildings	Leased buildings – IFRS 16	Equipment	Furniture and transport assets	Leased furniture and transport assets – IFRS 16	Tangible assets under construction	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value								
Balance as of 1 January 2021	**928**	**34,889**	**3,318**	**18,168**	**6,565**	**884**	**715**	**65,467**
Direct increases	0	0	171	0	0	0	1,287	1,458
Transfer from assets under construction	0	0	0	798	195	0	(993)	0
Sale and disposal	(5)	(190)	0	(1,868)	(377)	0	0	(2,440)
Balance as of 31 December 2021	**923**	**34,699**	**3,489**	**17,098**	**6,383**	**884**	**1,009**	**64,485**
Direct increases	0	0	1,527	0	0	0	2,230	3,757
Transfer from assets under construction	0	0	0	1,810	600	0	(2,410)	0
Sale and disposal	0	0	(944)	(82)	(31)	(884)	0	(1,940)
Balance as of 31 December 2022	**923**	**34,699**	**4,073**	**18,826**	**6,952**	**0**	**829**	**66,302**
Value adjustment								
Balance as of 1 January 2021	**0**	**17,553**	**1,399**	**16,446**	**6,198**	**523**	**0**	**42,119**
Depreciation for 2021	0	777	699	841	260	223	0	2,800
Sale and disposal	0	(126)	0	(1,868)	(376)	0	0	(2,370)
Balance as of 31 December 2021	**0**	**18,204**	**2,098**	**15,419**	**6,082**	**746**	**0**	**42,549**
Depreciation for 2022	0	750	572	1,017	271	130	0	2,740
Sale and disposal	0	0	(944)	(82)	(30)	(876)	0	(1,931)
Balance as of 31 December 2022	**0**	**18,954**	**1,727**	**16,354**	**6,323**	**0**	**0**	**43,358**
Net carrying value								
Balance as of 1 January 2021	**928**	**17,336**	**1,919**	**1,722**	**367**	**361**	**715**	**23,348**
Balance as of 31 December 2021	**923**	**16,495**	**1,391**	**1,679**	**301**	**138**	**1,009**	**21,936**
Balance as of 31 December 2021	**923**	**15,745**	**2,346**	**2,472**	**629**	**0**	**829**	**22,944**

As at 31 December 2022, the Bank had no pledged assets with other legal entities. Leased property, plant and equipment also include leased property in accordance with IFRS 16. .

21. Intangible assets

Description	Software	Other intangible assets	Intangible assets under construction	Total intangible assets
	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value				
Balance as of 1 January 2021	**19,080**	**1,586**	**4,933**	**25,599**
Direct increases	0	0	5,734	5,734
Transfer from assets under construction	4,082	0	(4,082)	0
Balance as of 31 December 2021	**23,162**	**1,586**	**6,585**	**31,333**
Direct increases	0	0	5,918	5,918
Transfer from assets under construction	380	0	(380)	0
Balance as of 31 December 2022	**23,542**	**1,586**	**12,123**	**37,251**
Value adjustment				
Balance as of 1 January 2021	**14,035**	**1,458**	**0**	**15,493**
Amortisation for 2021	1,221	44	0	1,265
Balance as of 31 December 2021	**15,256**	**1,502**	**0**	**16,758**
Amortisation for 2022	1,368	33	0	1,401
Balance as of 31 December 2022	**16,624**	**1,535**	**0**	**18,159**
Net carrying value				
Balance as of 1 January 2021	**5,045**	**128**	**4,933**	**10,106**
Balance as of 31 December 2021	**7,906**	**84**	**6,585**	**14,575**
Balance as of 31 December 2022	**6,918**	**51**	**12,123**	**19,092**

Increases in intangible assets in 2022 include HRK 2,363 thousand in employee costs (HRK 440 thousand in 2021) that result directly from the acquisition of intangible assets for their intended use (and relate to net salary in the amount of HRK 1,415 thousand, salary contributions HRK 407 thousand, tax HRK 216 thousand and salary contributions HRK 325 thousand).

The Bank's assets are not encumbered by liens.

22. Deferred and current tax assets

Description	**31 Dec 2022**	**31 Dec 2021**
	HRK '000	**HRK '000**
Deferred tax assets based on fees and other	1,100	1,464
Total	**1,100**	**1,464**

23. Other assets

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Paid advances and deferred income	1,073	838
Foreclosed assets /i/	7,817	7,337
Other	88	110
Total	**8,978**	**8,285**

/i/ Foreclosed assets are presented as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Land	1.576	1.401
Buildings	6.241	5.936
Total	**7.817**	**7.337**

Changes on foreclosed assets are as follows:

Description	2022 HRK '000	2021. HRK '000
Balance 1 January	**7,337**	**6,734**
Increase		
- Property Tax and other	0	(14)
- new assets	1,492	1,664
Decrease		
- sale	(978)	(1,050)
- impairment – note 13	(34)	3
Balance 31 December	**7,817**	**7,337**

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

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Demand deposits /i/	905,987	777,877
Fixed-term deposits /ii/	417,768	471,587
Liabilities for loans received	87,239	91,169
Total	**1,410,994**	**1,340,633**

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

/i/ Demand deposits are as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Demand deposits - retail		
- Kuna	281,742	242,925
- foreign currency	288,156	285,212
Total retail	***569,898***	***528,137***
Demand deposits - companies		
- Kuna	228,771	119,118
- foreign currency	15,574	67,941
Total companies	***244,345***	***187,059***
Demand deposits – financial institutions		
- Kuna	102	26
- foreign currency	3	0
Total financial institutions	***105***	***26***
Demand deposits – state and other institutions		
- Kuna	39,862	52,830
- foreign currency	140	129
Total state and other institutions	***40,002***	***52,959***
Limited deposits		
- Kuna	2,059	2,001
- foreign currency	578	0
Total limited deposits	***2,637***	***2,001***
Demand deposits – foreign persons		
- Kuna	2,533	223
Deposits of foreign companies	2,313	0
Retail deposits	220	223
- foreign currency	46,467	7,472
Deposits of foreign companies	38,392	1,797
Retail deposits	8,075	5,675
Total foreign persons	***49,000***	***7,695***
Grand total	**905,987**	**777,877**

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

/ii/ Fixed term deposits are as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Demand deposits - retail		
- Kuna	122,135	141,221
- foreign currency	263,771	299,819
Total retail	**385,906**	**441,040**
Demand deposits - companies		
- Kuna	21,115	14,816
- foreign currency	1,369	1,564
Total companies	**22,484**	**16,380**
Deposit state and other institutions		
- Kuna	1,910	2,458
- foreign currency	151	150
Total state and other institutions	**2,061**	**2,608**
- Kuna		
Deposits of foreign credit institutions	4,289	4,285
Deposits of foreign companies	60	60
- foreign currency		
Retail deposits	2,870	7,116
Deposits of foreign companies	98	98
Total foreign persons	**7,317**	**11,559**
Grand total	**417,768**	**471,587**

/iii/ Liabilities for loans received are as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Liabilities to CBRD /a/	11,777	15,899
Liabilities to CNB /b/	75,462	75,270
Total	**87,239**	**91,169**

/a/ Liabilities to CBRD as of 31 December 2022 amounted to HRK 11,777 thousand (31 December 2021: HRK 15,899 thousand). These sources are intended for granting loans to legal and natural persons in accordance with CBRD's programs. Depending on the purpose of the loan, interest rates ranged from 0% to 3% (in 2021 from 0% to 5%).

/b/ Liabilities to the CNB as of 31 December 2022 amount to HRK 75,462 thousand (31 December 2021: HRK 75,270 thousand) and relate to the structural operations of the CNB with an interest rate of 0.25% (in 2021, the interest rate 0.25%) and bonds of the Republic of Croatia in the total nominal amount of HRK 83.2 million as a collateral.

25. Lease liabilities – IFRS 16 and other financial liabilities

	31 Dec 2022	31 Dec 2021
Description	HRK '000	HRK '000
Lease liabilities	2,523	1,607
Other financial liabilities	122	122
Total	**2,645**	**1,729**

26. Provisions for liabilities and expenses

	Legal and tax proceedings in progress and other provisions	Provisions for commitments and guarantees	Total
Balance as at 1 January 2021	**3,415**	**1,350**	**4,765**
Net debit in the income statement - Note 13	89	(349)	260
Balance as at 31 December 2021	**3,504**	**1,001**	**4,505**
Net debit in the income statement - Note 13	102	299	401
Balance as at 31 December 2022	**3,606**	**1,300**	**4,906**

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

Provisions for commitments and financial guarantees:

Impairment	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**1,266**	**16**	**68**	**1,350**
Net changes in credit risk – note 13	(301)	(6)	(42)	(349)
Balance at 31 December 2020	**965**	**10**	**26**	**1,001**
Net changes in credit risk – note 13	164	4	131	299
Balance at 31 December 2021	**1,129**	**14**	**157**	**1,300**

27. Current tax liability

	31 Dec 2022	31 Dec 2021
Description	HRK '000	HRK '000
Current tax liability	1,475	474
Total	**1,475**	**474**

28. Other liabilities

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Liabilities for loan overpayments	4,128	3,977
Accounts payable	2,253	1,566
Liabilities to employees	3,154	2,281
Liabilities for fees to members of the Supervisory Board	23	23
Deferred interest income and accrued expenses	2,494	1,154
Property tax	23	0
Value added tax liabilities	8	9
Other liabilities	3,176	6,460
Total	**15,259**	**15,470**

29. Capital

As at 31 December 2022, the share capital of the Bank amounts to HRK 91,897 thousand and is divided into 918,972 shares, with a nominal value of HRK 100. The decision of the General Assembly of 29 June 2006 on the abolition of preference shares established that the Bank's share capital of HRK 91,897 thousand was divided into 172,412 dematerialized shares, of which 114,662 ordinary dematerialized Series A shares with a nominal value of HRK 600 each. 57,750 preference dematerialized shares of series B with a nominal value of HRK 400. This Decision abolishes the preference in its entirety, so these shares become ordinary dematerialized shares, with a nominal value of HRK 400 each. By the decision of the General Assembly of 29 June 2006 on the division of shares, one ordinary share of the Bank with a nominal value of HRK 600 is divided into 6 ordinary shares of the Bank with a nominal value of HRK 100, and one previous preferential share of the Bank with a nominal value of HRK 400 is divided into 4 ordinary registered shares of the Bank, with a nominal value of HRK 100.

As at 31 December 2022, the ten largest Bank's shareholders (data downloaded from www.skdd.hr) are presented as follows::

Name	31 Dec 2022 Balance	Share	Name	31 Dec 2021 Balance	Share
AU79 CAPITAL KORLATOLT FELELOSSEGU TARSASAG	84,758	9.22	URBAN CAPITAL INGATIANKEZELO ES TAN. KORLAT. F.T.	84,758	9.22
MWM1 OTVORENI AIF	83,884	9.13	MWM1 OTVORENI AIF	83,884	9.13
KOPIĆ VLATKO	81,228	8.84	SOKAČIĆ DRAGUTIN	73,781	8.03
SOKAČIĆ DRAGUTIN	73,781	8.03	SB-S D.D.	71,374	7.77
SB-S D.D.	71,374	7.77	BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU	60,000	6.53
PAGO CROATIA, D.O.O.	60,000	6.53	CERP / REPUBLIKA HRVATSKA	48,018	5.23
PETRINOVIĆ DOMAGOJ	38,050	4.14	PETRINOVIĆ DOMAGOJ	38,050	4.14
GALIĆ JOSIP	29,962	3.26	MIKULIĆ EMIL	36,554	3.98
MRKOCI MILIVOJ	29,960	3.26	BERIŠIĆ LJUBICA	36,432	3.96
FINE SA CREDOS D.D., CONSULTING FINANC. KOMPANIJA	29,073	3.16	GALIĆ JOSIP	29,962	3.26
OTHER SHAREHOLDERS	336,902	36.66	OTHER SHARE HOLDERS	356,159	38.75
TOTAL 1.358 SHAREHOLDERS	**918.972**	**100.00**	**TOTAL 1.091 SHAREHOLDERS**	**918,972**	**100.00**

30. Earning per share

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Profit for the year (in HRK '000)	6,094	3,736
Number of shares	918,972	918,972
Earning per share	**6,63 kn**	**4,07 kn**

Profit for the year (in HRK '000)	6,094	3,736
Number of shares after deduction for ordinary treasury shares	847,598	847,598
Basic and diluted earnings per share (in HRK per share)	**7,19**	**4,41**

31. Contingencies and commitments

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Guarantees	48,345	40,826
Revolving loans	4,376	4,478
Indicative margin loans	67,555	84,267
Revolving loans and financing commitments	**120,276**	**129,571**
Total	(1,300)	(1,001)
Provisions for contingent liabilities	**118,976**	**128,570**

Contingencies and commitments as at 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
Guarantees	42,169	330	5,846	48,345
Revolving loans	4,280	2	94	4,376
Indicative margin loans	0	0	0	0
Revolving loans and financing commitments	66,884	258	413	67,555
OFF BALANCE SHEET LIABILITIES	**113,333**	**590**	**6,353**	**120,276**
Total provision for off-balance sheet liabilities	**(1,129)**	**(14)**	**(157)**	**(1,300)**

Contingencies and commitments as at 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
Guarantees	40,826	0	0	40,826
Revolving loans	4,422	4	52	4,478
Revolving loans and financing commitments	83,566	424	277	84,267
OFF BALANCE SHEET LIABILITIES	**128,814**	**428**	**329**	**129,571**
Total provision for off-balance sheet liabilities	**(965)**	**(10)**	**(26)**	**(1,001)**

32. Managed funds for and on behalf of third parties

Custody services:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Total sources	8,888	11,295
Less: assets	(7,834)	(10,290)
Unspent funds	1,054	1,005

In 2022, the Bank manage4 funds for and on behalf of third parties. These assets were recorded separately from the Bank's assets. Income and expenses on the basis of these funds are recorded in favour or at the expense of appropriate sources. The Bank charged a fee for its services, which charged these funds.

33. Leases

When calculating the lease liability for leases classified as operating leases, the Bank discounted lease payments at a rate of 5%.

For all leases, except for short-term leases and leases of assets of lesser value, the Bank applies a unique recognition and measurement approach. The Bank recognizes obligations based on a lease payment and the right to use the asset, which represents the right to use the asset in question.

Right-of-use assets

The Bank recognizes right-of-use assets at the time of signing the lease agreement (that is, at the time when the property in question is available for use). Right-of-use assets are measured at acquisition cost less accumulated depreciation and impairment losses and are adjusted for remeasurement of lease liabilities. The cost of the right-of-use assets includes the amount of recognized lease liabilities, initial direct costs, and lease payments made on or before the conclusion of the contract. Right-of-use assets are depreciated on a straight-line basis over the lease term. The Bank rents branches, business premises, and personal vehicles.

33. Leases (continued)

Right-of-use assets are shown in note 20- Property, plant and equipment. Leases are usually concluded for 5-10 years, with the possibility of renewal after expiry. In the case of leases without a defined term of use, the Bank recognizes right-of-use assets based on an assessment of the possible term of use of the asset. Certain leases provide for changes in payment based on changes in local price indices.
The Bank also leases certain equipment and business premises that are short-term and/or lease assets of low value. The Bank does not recognize the right-of-use assets under this type of lease.

The right-of-use assets are shown below, and they refer to branches and business premises for rent, as well as personal vehicles.

Description	Buildings	Transport vehicles	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000
Purchase value			
Balance as of 1 January 2021	**3,318**	**884**	**4,202**
Increases	171	0	171
Balance as of 31 December 2021	**3,489**	**884**	**4,373**
Increases	1,527	0	1,527
Sale and disposal	(943)	(884)	(1,827)
Balance as of 31 December 2022	**4,073**	**0**	**4,073**
Value adjustment			
Balance as of 1 January 2021	**1,399**	**523**	**1,922**
Depreciation for 2021	699	223	922
Balance as of 31 December 2021	**2,098**	**746**	**2,844**
Depreciation for 2022	572	130	702
Sale and disposal	(943)	(876)	(1,819)
Balance as of 31 December 2022	**1,727**	**0**	**1,727**
Net carrying value			
Balance as of 1 January 2021	**1,919**	**362**	**2,281**
Balance as of 31 December 2021	**1,391**	**138**	**1,529**
Balance as of 31 December 2022	**2,346**	**0**	**2,346**

33. Leases (continued)

Lease liabilities

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

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

	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Maturity analysis - contractual undiscounted cash flows		
Up to one year	524	1,506
Between one and two years	289	215
Between two and three years	296	156
Between three and four years	304	156
Between four and five years	246	156
Over five years	946	271
Total	**2,605**	**2,460**
Discounting effect	82	854
Total discounted lease liabilities at 31 December	**2,523**	**1,606**

Expenses related to operating leases are set put below.

	2022.	2021
	HRK '000	HRK '000
Depreciation of leased property		
Building	572	699
Transport	130	223
Depreciation of leased property	**702**	**922**
Lease expenses		
Interest expenses on lease liability	66	122
Expenses related to short-term leases	763	156
Costs related to low-value leases, excluding short-term low-value leases	104	3
Exchange rate differences	3	28
Cost of tax on long-term operating lease	249	215
Lease liability expenses	**1,185**	**439**

33. Leases (continued)

Total cash flows for leases are set out below:

Cash flow	2022.	2021
	HRK '000	HRK '000
Cash payment for part of the lease liability relating to principal	591	835
Cash payment for part of the lease liability relating to interest	66	122
Tax-related payments	249	216
Short-term lease payments, lease payments of low value assets	858	159
Total lease payments	**1,764**	**1,332**

34. Transactions with persons in a special relationship with the Bank, persons related to them and other related parties

Persons in a special relationship with a credit institution are:

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

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

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

34. Transactions with persons in a special relationship with the Bank, persons related to them and other related parties (continued)

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

Members of the close family of the related parties are:

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

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

This note also includes key management in accordance with the provisions set forth in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As part of regular business, banking deals are concluded with related parties, which include the granting of loans and deposits. Transactions with related parties are carried out on the principle of impartial transactions. Applicable interest rates and other conditions (maturity dates and collaterals) represent market conditions. The total amounts of related party transactions, year-end open items and related expenses and income for the year are presented as follows:

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Loans and advances to customers, securities		
Shareholders holding 5 or more percent of the voting shares	8	4
Management	2,968	10
Supervisory Board	0	0
Others	20,531	9,296
Total loans and advances to customers	**23,507**	**9,310**
Contingent liabilities		
Shareholders holding 5 or more percent of the voting shares	0	0
Management	24	23
Others	10,241	10,371
Total contingent liabilities	**10,265**	**10,394**

34. Transactions with persons in a special relationship with the Bank, persons related to them and other related parties (continued)

D e s c r i p t i o n	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
Demand deposits		
Shareholders holding 5 or more percent of the voting shares	11	9,589
Others	38,924	537
Management	1,553	988
Supervisory Board and related persons	27	17
Total demand deposits	**40,515**	**11,131**
Fixed-term deposits		
Others	50	121
Management	0	407
Supervisory Board and related persons	0	0
Total fixed-term deposits	**50**	**528**
Other liabilities		
Shareholders holding 5 or more percent of the voting shares	0	0
Others	0	0
Management	0	0
Supervisory Board and related persons	23	23
Total Other liabilities	**23**	**23**

D e s c r i p t i o n	2022. HRK '000	2021. HRK '000
Income		
Shareholders holding 5 or more percent of the voting shares	0	55
Supervisory Board and related persons	29	51
Management	31	90
Others	253	313
Total income	**313**	**509**
Expenses		
Shareholders holding 5 or more percent of the voting shares	0	0
Management	3	4
Others	1	76
Supervisory Board and related persons	0	271
Total expenses	**4**	**351**

Information on transactions with the Republic of Croatia-Ministry of Finance and persons related to the shareholder CERP in 2021 (on the basis of securities (treasury bills and bonds), tax and other receivables and liabilities) are not included.

34. Transactions with persons in a special relationship with the Bank, persons related to them and other related parties (continued)

Remuneration to the members of the Management Board was as follows:

Description	2022. HRK '000	2021. HRK '000
Net salaries	1,638	1,686
Taxes and contributions	993	1,017
Total	**2,631**	**2,703**

35. Fair value of financial assets and liabilities

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

	31 Dec 2022		
ASSETS	**Level 1**	**Level 2**	**Level 3**
Non-trading financial assets that are measured at fair value through profit or loss	**0**	**0**	**0**
Equity instruments	0	0	0
Debt securities	0	0	0
Financial assets at fair value through other comprehensive income	**216,029**	**741**	**141**
Equity instruments	0	0	141
Debt securities	216,029	0	0
Loans and advances	0	741	0

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

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

Fair value of financial assets as of 31 December 2022:

Financial assets at fair value	Fair value at 31 Dec 2022	Fair value levels	Valuation method and main entry data
Financial assets at fair value through other comprehensive income			
Debt securities			
Bonds of the Republic of Croatia	153,140	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Treasury bills of the Republic of Croatia	45,825	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
EU government bonds	7,347	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Bonds of trading companies	9,717	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Equity instruments			
Share in HROK d.o.o.	141	Level 3	carrying amount at cost
Loans and advances			
Share in an alternative venture capital investment fund with a private offering	741	Level 2	market price - published share price on the valuation day

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

Fair value of financial assets as of 31 December 2021:

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

VI FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

36. Credit risk

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

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2022 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placement**	**Reserves STAGE 1**	**Reserves STAGE 2**	**Reserves STAGE 3**	**Net placements**
Cash	356,630	163	0	0	356,467
Non-traded financial assets at fair value through profit or loss	0	0	0	0	0
Financial assets at fair value through other comprehensive income	217,054	143	0	0	216,911
Financial assets-debt securities at amortized cost	15,481	55	0	0	15,426
Financial assets-loans and advances at amortized cost	1,048,620	8,728	2,127	82,952	954,813
Receivables from the Croatian National Bank	2	0	0	0	2
Placements with credit institutions	5,193	1	0	36	5,156
Loans and advances to customers	1,043,425	8,727	2,127	82,916	949,655
Investment in an affiliated company	0	0	0	0	0
Property, plant and equipment	22,944	0	0	0	22,944
Intangible assets	19,092	0	0	0	19,092
Current tax assets	1,100	0	0	0	1,100
Other assets	8,978	0	0	0	8,978
Total balance sheet exposure	**1,689,899**	**9,089**	**2,127**	**82,952**	**1,595,731**
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	48,345	256	7	117	47,965
Letters of credit	0	0	0	0	0
Credit and other commitments	71,931	873	7	40	71,011
Total off-balance sheet exposure:	**120,276**	**1,129**	**14**	**157**	**118,976**
Total 31 December 2022	**1,810,175**	**10,218**	**2,141**	**83,109**	**1,714,707**

36. Credit risk (continued)

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

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

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

An overview of received collaterals is as follows

31 Dec 2022	Loans and advances to clients
Loans and advances to clients	**954,818**
Secured loans:	
Deposits	18,014
Guarantees	19,097
Residential property	119,151
Commercial and other property	174,333
Stocks	61,500
Movables	**392,095**
TOTAL	**41,06%**

31 Dec 2021	Loans and advances to clients
Loans and advances to clients	**944,493**
Secured loans:	
Deposits	52,475
Guarantees	54,616
Residential property	84,035
Commercial and other property	178,009
Stocks	0
Movables	30,089
Credit insurance	0
TOTAL	**399,224**
Insured share	**42,27%**

- **Sale of receivables**

In 2022, the Bank sold HRK 16.8 million of gross receivables (HRK 1.8 million of net receivables) to third parties for HRK 9.8 million, which resulted in the release of impairment provisions of HRK 6.9 million.

In 2021, the Bank sold HRK 43.2 million of gross receivables (HRK 2.2 million of net receivables) to third parties for HRK 4.1 million, which resulted in the release of provisions for impairment of HRK 891 thousand.

36. Credit risk (continued)

- ***Reprogrammed and restructured loans***

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

Overview of restructured loans is as follows:

31 Dec 2022			Stage 1		Stage 2	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances:						
Corporate	43,374	(12,165)	6,975	(36)	36,399	(12,128)
Retail	15,382	(5,142)	7,440	(83)	7,942	(5,060)
Total	**58,756**	**(17,307)**	**14,415**	**(119)**	**44,341**	**(17,188)**

31 Dec 2021			Stage 1		Stage 2	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances:						
Corporate	56,074	(18,222)	9,134	(113)	46,940	(18,109)
Retail	17,178	(5,561)	3,858	(38)	13,320	(5,523)
Total	**73,252**	**(23,783)**	**12,992**	**(151)**	**60,260**	**(23,632)**

36. Interest rate risk

The following table shows assets and liabilities of the Bank as per carrying value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2022.

	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	TOTAL
ASSETS							
Cash and cash equivalents	61,340	295,127	0	0	0	0	356,467
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	9,424	250	57	117,662	15,919	73,599	216,911
Financial assets at amortized cost	152	500	0	500	2,000	12,274	15,426
Receivables from the Croatian National Bank	0	2	0	0	0	0	2
Loans and receivables from banks	4,240	0	151	765	0	0	5,156
Loans and advances to customers	3,555	48,604	35,611	660,168	120,148	81,569	949,655
Investments in subsidiaries and associates	0	0	0	0	0	0	0
Property, plant and equipment	22,944	0	0	0	0	0	22,944
Intangible assets	19,092	0	0	0	0	0	19,092
Deferred tax assets	1,100	0	0	0	0	0	1,100
Other assets	8,978	0	0	0	0	0	8,978
Total assets	**130,825**	**344,483**	**35,819**	**779,095**	**138,067**	**167,442**	**1,595,731**
LIABILITIES							
Current accounts and deposits of customers and banks	30,772	267,253	84,817	400,569	249,190	291,154	1,323,755
Liabilities on received loans	405	124	1,849	1,884	77,846	5,131	87,239
Lease liabilities - IFRS 16	2,645	0	0	0	0	0	2,645
Provisions for liabilities and charges	4,906						4,906
Tax liability	1,475	0	0	0	0	0	1,475
Other liabilities	15,259	0	0	0	0	0	15,259
Total liabilities	**55,462**	**267,377**	**86,666**	**402,453**	**327,036**	**296,285**	**1,435,279**
CAPITAL							
Total capital	**160,452**	**0**	**0**	**0**	**0**	**0**	**160,452**
Total liabilities and capital	**215,914**	**267,377**	**86,666**	**402,453**	**327,036**	**296,285**	**1,595,731**
NET ASSETS / EQUITY AND LIABILITIES	**(85,089)**	**77,106**	**(50,847)**	**376,642**	**(188,969)**	**(128,843)**	**0**

37. Interest rate risk (continued)

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

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

37. Interest rate risk (continued)

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

	2022.	2021.
	%	%
Assets		
Placements with credit institutions	1.20	0.04
Loans and advances to clients	5.55	6.05
Liabilities		
Demand deposits	0.00	0.00
Fixed-term deposits	0.43	0.53
Loan liabilities	0.41	0.47

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

	31 December 2022			31 December 2021		
Description	**Assets**	**Liabilities**	**Off-balance sheet items**	**Assets**	**Liabilities**	**Off-balance sheet items**
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Geographical region						
Republic of Croatia	1,578,597	1,375,310	118,917	1,518,290	1,445,203	124,210
Europe	17,134	59,548	57	16,830	88,739	4,358
Other countries	0	421	2	0	0	0
Other	0	160,452	0	0	1,178	2
Total geographical region	**1,595,731**	**1,595,731**	**118,976**	**1,535,120**	**1,535,120**	**128,570**
Sector						
Republic of Croatia	209,347	44,718	4,629	236,742	42,715	8,518
Croatian National Bank	288,116	75,534	0	362,375	0	0
Trade	28,098	26,017	2,388	93,585	30,702	1,674
Finance	26,969	4,639	0	24,423	217,474	349
Tourism	26,628	5,863	333	31,890	13,167	507
Agriculture, fisheries	32,174	104,347	280	84,401	43,804	7,636
Industry	168,654	91,130	44,327	86,219	28,568	7,517
Retail (including craftsmen and other independent occupations)	546,942	958,372	57,147	429,128	971,692	50,502
Non-residents	17,134	59,972	59	16,830	71,629	4,360
Other	251,669	225,139	9,813	169,527	115,369	47,507
Total sectorial analysis	**1,595,731**	**1,595,731**	**118,976**	**1,535,120**	**1,535,120**	**128,570**

39. Currency risk

The Bank's foreign currency assets and liabilities as at 31 December 2022 are presented as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash and cash equivalents	36,498	9,917	12,380	0	58,795	297,672	356,467
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	57,011	0	0	54,361	111,371	105,540	216,911
Financial assets at amortized cost (debt securities)	0	0	0	5,315	5,315	10,111	15,426
Receivables from the Croatian National Bank	0	0	0	0	0	2	2
Loans and receivables from banks	915	4,238	0	0	5,153	3	5,156
Loans and advances to customers	0	0	0	441,106	441,106	508,549	949,655
Investments in subsidiaries and associates	0	0	0	0	0	0	0
Property, plant and equipment	0	0	0	0	0	22,944	22,944
Intangible assets	0	0	0	0	0	19,092	19,092
Deferred and current tax assets	0	0	0	0	0	1,100	1,100
Other assets	0	0	0	0	0	8,978	8,978
Total assets	**94,424**	**14,155**	**12,380**	**500,782**	**621,740**	**973,991**	**1,595,731**
LIABILITIES							
Current accounts and deposits of customers and banks	591,518	13,674	11,492	2,493	619,177	704,578	1,323,755
Liabilities on received loans	0	0	0	7,221	7,221	80,018	87,239
Lease liabilities - IFRS 16	0	0	0	2,107	2,107	538	2,645
Provisions for liabilities and charges	32	0	0	0	32	4,874	4,906
Tax liability	0	0	0	0	0	1,475	1,475
Other liabilities	287	14	16	0	317	14,942	15,259
Total liabilities	**591,837**	**13,688**	**11,508**	**11,821**	**628,854**	**806,425**	**1,435,279**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**160,452**	**160,452**
Total equity and liabilities	**591,837**	**13,688**	**11,508**	**11,821**	**628,854**	**966,877**	**1,595,731**
NET ASSETS / EQUITY AND LIABILITIES	**(497,413)**	**467**	**872**	**488,961**	**(7,114)**	**7,114**	**0**

39. Currency risk (continued)

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

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

40. Liquidity risk

The remaining maturity of the Bank's assets and liabilities as at 31 December 2022 is shown as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and cash equivalents	356,467	0	0	0	0	356,467
Financial assets at fair value through profit or loss	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	216,770	0	0	0	141	216,911
Financial assets at amortized cost - debt securities	662	0	5,764	2,000	7,000	15,426
Receivables from the Croatian National Bank	2	0	0	0	0	2
Loans and receivables from banks	4,241	151	764	0	0	5,156
Loans and advances to customers	83,558	38,748	153,140	219,297	454,912	949,655
Property, plant and equipment	0	0	0	0	22,944	22,944
Intangible assets	0	0	0	0	19,092	19,092
Deferred tax assets	114	0	111	168	707	1,100
Other assets	0	88	0	0	8,890	8,978
Total assets	**661,814**	**38,987**	**159,779**	**221,465**	**513,686**	**1,595,731**
LIABILITIES						
Current accounts and deposits of customers and banks	294,155	85,944	402,950	249,544	291,162	1,323,755
Liabilities on received loans	123	1,303	1,951	78,478	5,384	87,239
Lease liabilities - IFRS 16	331	58	237	560	1,459	2,645
Provisions	971	76	123	3,709	27	4,906
Tax liabilities	0	0	1475	0	0	1,475
Other liabilities	15,259	0	0	0	0	15,259
Total liabilities	**310,839**	**87,381**	**406,736**	**332,291**	**298,032**	**1,435,279**
CAPITAL						
Total capital	**0**	**0**	**0**	**0**	**160,452**	**160,452**
Total equity and liabilities	**310,839**	**87,381**	**406,736**	**332,291**	**458,484**	**1,595,731**
NET ASSETS / EQUITY AND LIABILITIES	**350,975**	**(48,394)**	**(246,957)**	**(110,826)**	**55,202**	**0**

40. Liquidity risk (continued)

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

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and cash equivalents	336,245	0	0	0	0	336,245
Financial assets at fair value through profit or loss	0	0	0	0	1,521	1,521
Financial assets at fair value through other comprehensive income	229,806	0	0	0	2,241	232,047
Financial assets at amortized cost - debt securities	0	0	0	0	0	0
Receivables from the Croatian National Bank	2	44,965	13,859	5,605	5,453	69,884
Loans and receivables from banks	5,355	150	763			6,268
Loans and advances to customers	71,480	33,957	117,271	210,503	409,684	842,895
Property, plant and equipment	0	0	0	0	21,936	21,936
Intangible assets	0	0	0	0	14,575	14,575
Deferred tax assets	386	0	132	202	744	1,464
Other assets	30	79	12	0	8,164	8,285
Total assets	**643,304**	**79,151**	**132,037**	**216,310**	**464,318**	**1,535,120**
LIABILITIES						
Current accounts and deposits of customers and banks	227,594	94,265	413,938	187,995	325,672	1,249,464
Liabilities on received loans	231	1,566	2,795	4,434	82,143	91,169
Lease liabilities - IFRS 16	201	157	455	199	717	1,729
Provisions	846	10	44	3,583	22	4,505
Tax liabilities	474	0	0	0	0	474
Other liabilities	15,470	0	0	0	0	15,470
Total liabilities	**244,816**	**95,998**	**417,232**	**196,211**	**408,554**	**1,362,811**
CAPITAL						
Total capital	**0**	**0**	**0**	**0**	**172,309**	**172,309**
Total equity and liabilities	**244,816**	**95,998**	**417,232**	**196,211**	**580,863**	**1,535,120**
NET ASSETS / EQUITY AND LIABILITIES	**398,488**	**(16,847)**	**(285,195)**	**20,099**	**(116,545)**	

41. Capital management

Description	Basel III 31 Dec 2022 HRK '000	Basel III 31 Dec 2021 HRK '000
Ordinary shares paid-in	*91,897*	*91,897*
Own/treasury shares	(6,592)	(6,592)
Regular and non-cumulative preferred shares	85,305	85,305
Reserves	*16,102*	*15,183*
Capital profit from purchase and sale of own shares	*149*	*149*
Retained earning	*75,065*	*67,093*
Reserves and retained earnings	91,316	82,425
Intangible assets	(16,566)	(10,530)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	0
Accumulated other comprehensive income	(17,250)	710
Impairment due to prudential valuation	(217)	(234)
Other transitional adjustments	11,187	2,770
Loss for the year	0	0
TIER 1 CAPITAL	153,775	160,446
REGULATORY CAPITAL	**153,775**	**160,446**
CAPITAL ADEQUACY RATE	16.29%	18.63%

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

Events after the date of the statement of financial position/balance sheet are those favourable and unfavourable events that occurred between the date of the balance sheet and the date on which the issuance of the financial statements was approved. The Bank adjusts the amounts recognized in its financial statements for events after the date of the statement of financial position/balance sheet that require adjustment.

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

/ii/ The Bank made a decision to change the business model of debt securities, valid from 1 January 2023, from the model held for collection and sale and measured at fair value through other comprehensive income to the model held for collection, and measured at amortized cost.

By changing the business model, the Bank reclassified the portfolio of debt securities that were allocated to the business model of held for the collection of cash flows and sale to the business model of held for collection (collection of cash flows) in accordance with point 4.4.1. of International Financial Reporting Standard 9 (IFRS 9): Financial Instruments.

The Bank considers that all the criteria for the reclassification of debt securities from the business model of held for the collection of cash flows and sale to the business model of held for collection (collection of cash flows) which are measured at amortized cost have been met, and the Bank has made changes to its organizational structure, organization, internal acts and received the related decisions of the regulator on abandoning part of the activity.

The Bank had no trading in 2021 and 2022, and the change of model met the SPPI test.

Prior to the review by the auditor of the annual financial statements PKF revizija d.o.o., the Bank engaged the auditing company PriceWaterhouseCoopers, which gave an independent positive opinion on the process of changing the reclassification model.

Auditor of annual financial statements company PKF FACT revizija d.o.o. agrees with the assessment of the Management Board and advisers on the appropriateness of the reclassification carried out on 1 January 2023, that is, with the change of the business model of holding securities for the purpose of collecting cash flows and sales (HTC&S) to the business model of holding for collection (HTC).

The financial effects of the change in the business model that was implemented in January 2023 consist of a reduction in the portfolio of debt securities that are measured at fair value through other comprehensive income by HRK 210 million (EUR 27.8 million), an increase in the portfolio of securities that are measures at amortized cost by HRK 228.2 million (EUR 30.3 million) and the accumulated comprehensive profit in capital and reserves increased by HRK 18.2 million (EUR 2.4 million).

The aforementioned changes will be visible in the next reporting period with the balance as of 31 March 2023.

/iii/ At the beginning of 2020, the COVID-19 coronavirus spread to almost all countries, causing disruptions in business and economic activity. In order to mitigate the harmful consequences of the pandemic on the banking system and the economy as a whole, the CNB adopted protective measures that were active and the Bank used them to facilitate the return of exposure to its clients. The COVID-19 pandemic had effects on the assessment of the recoverability of exposure and the calculation of provisions for credit losses and through the assessment of the parameters used in the calculation of the value of financial assets in accordance with IFRS 9 - Financial instruments, primarily in the probability of entry into default status (PD), loss given default (LGD) and exposure at default (EAD). The Bank adjusted the parameters for the calculation of IFRS 9 in accordance with the new macroeconomic environment, as shown below:

Period	**01.01.2020. 30.06.2020.**	**01.07.2020. 31.12.2020.**	**01.01.2021. 30.06.2021.**	**01.07.2021. 31.12.2021.**	**01.01.2022.- 31.12.2022.**
Macroeconomic indicators					
GDP	2,80%	-9,70%	4,90%	6,80%	4,10%
Unemployment	-0,70%	2,30%	-0,50%	-0,60%	-0,60%
Inflation	1,40%	-0,03%	1,00%	1,70%	2,40%
Weights for macroeconomic scenarios					
Pessimistic scenario	15,00%	15,00%	15,00%	15,00%	15,00%
Neutral scenario	70,00%	70,00%	70,00%	70,00%	70,00%
Optimistic scenario	15,00%	15,00%	15,00%	15,00%	15,00%

-PD-influenced by macroeconomics					
PO	**30.6.2020.**	**31.12.2020.**	**30.6.2021.**	**31.12.2021.**	**31.12.2022.**
PD model by delay day ranges					
0	1,41%	1,53%	1,43%	1,25%	1,36%
1-30	9,81%	10,39%	1,73%	2,98%	6,38%
31-60	20,17%	21,12%	17,36%	17,93%	25,50%
61-90	26,50%	27,61%	17,01%	20,08%	46,33%
FO					
Model PD					
0	1,78%	1,93%	1,64%	1,44%	1,97%
1-30	8,34%	8,87%	6,71%	7,21%	9,18%
31-60	18,75%	19,61%	9,57%	21,99%	38,07%
61-90	32,75%	33,96%	15,93%	29,86%	46,23%

The Bank has adopted measures to help citizens whose incomes are threatened by the COVID-19 pandemic. As at 31 December 2022, exposures to customers who have benefited from support measures are shown as follows:

SEGMENT				STATUS COVID-19 (MORATORIUM) ON 31 DECEMBER 2022				
	NO. OF LOANS	**BALANCE OF LOAN PRINCIPLE**	**TOTAL EXPOSURE 31 DECEMBER**	**EXPOSURE BY PRINCIPAL 31 DECEMBER**	**SHARE**	**NO OF LOANS 31 DEC**	**SHARE**	**REGULATORY CAPITAL**
LEGAL ENTITIES	19.80%	498	430,725,977,47	30,453,113,59	30,317,529,04	7.04%	7	1.41%
CRAFTS AND FAMILY FARMS	0.10%	417	76,483,710,28	152,071,22	152,071,22	0.20%	2	0.48%
NATURAL PERSONS	0.00%	20,485	482,265,997,42	0,00	0,00	0.00%	0	0.00%
Total	**19.90%**	**21,400**	**989,475,685,17**	**30,605,184,81**	**30,605,600,26**	**3.08%**	**9**	
Capital 31 Dec 2022	**153,775,319**							

The Bank monitors the spillover of war risks in Ukraine and adapts to the new situation on the market.

VIII LEGAL DISPUTES AND CONTINGENT LIABILITIES

As at 31 December 2022, there are several court claims currently being held against the Bank; they are all of lesser value except the claim initiated by Jugobanka d.d., in bankruptcy, Belgrade. The Commercial court in Bjelovar rendered its verdict on 19 June 2008 (Decision VP-167/08-27), whereby the claim of the plaintiff was dismissed as baseless. Appeal was filed against this Decision. At the same time, the plaintiff brought forward a claim for temporary court injunction, to which claim the High Commercial Court of the Republic of Croatia rendered its verdict on 3 June 2008, Decision Pž-3109/08-4, whereby the claim of the plaintiff was dismissed as baseless, and the Decision of the Commercial court in Bjelovar was held up.

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

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

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

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

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

The Bank has made provisions for said case in accordance with Article 8 of the Decision on obligatory provisions of assets for court claims against credit institutions (OG 1/09, 75/09, 2/10 and 139/22). Provisions are going to remain in place until the Bank, in relation to the claim for damages, does not receive a final judgment in its favour, or judgment, by which would plaintiff's claim be legally rejected in its entirety as unfounded.

IX APPROVAL OF FINANCIAL STATEMENTS

These financial statements were signed and authorized for issuing by the Management Board on 30 March 2023.
For and on behalf of the Management Board:

Andrej Kopilaš
Predsjednik Uprave

Oliver Klesinger
Član uprave

Slatinska banka d.d.
Vladimira Nazora 2
33520 Slatina
Republika Hrvatska

SLATINSKA BANKA d.d.
1

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

The Bank is providing the following banking services

- acceptance of deposits or other repayable funds from the public and the approval of loans out of such funds, for its own account;
- acceptance of deposits or other repayable funds;
- lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of noncurrent, non-matured receivables collateralised with a financial instrument (forfeiting);
- repurchase of receivables with or without recourse (factoring);
- financial leasing;
- issuance of guarantees or other commitments;
- trading for own account or for the account of clients in: money market instruments; transferable securities; foreign exchange, including currency exchange transactions; financial futures and options; exchange and interest-rate instruments;
- payment services, in accordance with special laws;
- credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- issuing and administering other means of payment, if the provision of such services is not considered the services as described in Article 5, point 7 of the Credit Institutions Act;
- mediation on the money market;
- activities related to the sale of insurance policies in accordance with the law governing insurance;

In 2022, the Bank operated through its headquarters in Slatina, offices in Zagreb and Split and branches Osijek, Rijeka, Zagreb, D. Miholjac, Daruvar, Đakovo, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo and Virovitica.

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

	2022
	HRK '000
Total revenue	70,047
Profit before tax	8,781
Profit tax	(2,687)

Number of employees on 31 December 2022	179
Number of full-time employees (paid working hours) in 2022	167
The number of employees on the basis of equivalent full working time in 2022	139

The cost of the audit of the annual financial statements and the related audit for the needs of the Croatian National Bank amounted to HRK 140 thousand plus VAT. The cost of Auditor's engagement in the procedures for verifying the determined profit of individual financial statements for the period from 1 January to 30 June 2022 was HRK 40,000 plus VAT, and the cost of the receipts report was HRK 16,000 plus VAT. During 2022 and in the two years preceding the year of the audit, the auditor did not perform any other work for the Bank.

The Bank did not receive public subsidies in 2022.

Off-balance sheet items:

1	OFF-BALANCE SHEET ITEMS	31 Dec 2022	31 Dec 2021
2	Guarantees	48,345,236	40,826,126
3	Letters of credit	0	0
4	Letters of guarantee	0	0
5	Accepted bills of exchange	0	0
6	Revolving loans	4,375,427	4,477,931
7	Indicative margin loans	0	0
8	Other credit lines and commitments	67,555,332	84,267,481
9	Other risk off-balance sheet items	0	0
10	Total off-balance sheet items	120,275,995	129,571,538

IN ACCORDANCE WITH THE ACCOUNTING ACT AND THE DECISION ON THE STRUCTURE AND CONTENT OF ANNUAL FINANCIAL REPORTS OF CREDIT INSTITUTIONS

The annual financial statements have been prepared in accordance with the Decision of the Croatian National Bank (''CNB'') on the structure and content of the annual financial statements of credit institutions (OG 42/18, 122/20, 119/21 and 108/22).

Credit institutions are required to prepare annual financial statements referred to in Article 19 of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018, 42/2020, 47/2020 and 114/2022) according to the structure and content of the Guidelines for the implementation of the Decision on the structure and content of the annual financial statements of credit institutions and in accordance with the provisions of International Financial Reporting Standards.

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

The annual financial statements of the Bank for the period ended 31 December 2022 and the accompanying accounting policies and notes as an integral part thereof were signed and approved by the Bank's Management Board on 30 March 2023.

Statement of financial position (Balance Sheet)

balance as at 31 December 2022

Form BAN-BIL

Entity: SLATINSKA BANKA D.D.

Position	AOP code	Note no.	Previous year (net)	Current year (net)
1	2	3	4	5
Assets				
1. Cash, cash receivables from central banks and other demand deposits (AOP 002 to 004)	001		336,245,059	356,466,774
1.1. Cash	002		20,850,460	39,649,653
1.2. Cash receivables from central banks	003		292,491,011	288,114,838
1.3. Other demand deposits	004		22,903,588	28,702,283
2. Financial assets held for trade (AOP 006 to 009)	005		0	0
2.1. Derivatives	006		0	0
2.2. Equity instruments	007		0	0
2.3. Debt securities	008		0	0
2.4. Loans and advances	009		0	0
3. Financial assets not held for trade which is measured at fair value through profit or loss (AOP 011 to 013)	010		1,521,490	0
3.1. Equity instruments	011		275,386	0
3.2. Debt securities	012		1,246,104	0
3.3. Loans and advances	013		0	0
4. Financial assets at fair value through profit or loss (AOP 015+016)	014		0	0
4.1. Debt securities	015		0	0
4.2. Loans and advances	016		0	0
5. **Financial assets at fair value through other comprehensive income ((AOP 018 to 020)**	017		232,046,885	216,911,256
5.1. Equity instruments	018		2,240,774	141,000
5.2. Debt securities	019		229,000,989	216,028,745
5.3. Loans and advances	020		805,122	741,511
6. Financial assets at amortised cost (AOP 022+023)	021		919,058,604	970,238,781
6.1. Debt securities	022		0	15,425,962
6.2. Loans and advances	023		919,058,604	954,812,819
7. Derivatives – hedge accounting	024		0	0
8. Changes in fair value of hedged items in interest risk portfolio	025		0	0
9. Investments in subsidiaries, joint ventures and affiliates	026		0	0
10. Tangible assets	027		21,935,847	22,944,127
11. Intangible assets	028		14,575,159	19,092,017
12. Tax assets	029		1,464,236	1,100,229
13. Other assets	030		8,272,899	8,978,016
14. Fixed assets and disposal groups classified as ready-to –sale	031		0	0
15. TOTAL ASSETS (AOP) 001+005+010+014+017+021+024 to 031)	032		1,535,120,179	1,595,731,200
Liabilities				
16. Financial liabilities held for trade (AOP 034 to 038)	033		0	0
16.1. Derivatives	034		0	0
16.2. Short term items	035		0	0
16.3. Deposits	036		0	0
16.4. Issued debt securities	037		0	0
16.5. Other financial liabilities	038		0	0
17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)	039		0	0
17.1. Deposits	040		0	0

17.2. Issued debt securities	**041**		0	0
17.3. Other financial liabilities	**042**		0	0
18. Financial liabilities measured at amortised cost (AOP 044 to 046)	**043**		1,342,362,127	1,413,639,834
18.1. Deposits	**044**		1,340,633,316	1,410,994,411
18.2. Issued debt securities	**045**		0	0
18.3. Other financial liabilities	**046**		1,728,811	2,645,423
19. Derivatives – hedge accounting	**047**		0	0
20. Changes in fair value of hedged items in interest risk portfolio	**048**		0	0
21. Provisions	**049**		4,504,792	4,905,905
22. Tax liabilities	**050**		473,673	1,475,356
23. T1 capital returned at request	**051**		0	0
24. Other liabilities	**052**		15,470,191	15,258,161
25. Laiblilities included in disposal groups classified as ready for sale	**053**		0	0
26. TOTAL LIABILITIES (AOP 033+039+043+047 to 053)	**054**		1,362,810,783	1,435,279,256
Equity				
1. Share capital	**055**		91,897,200	91,897,200
2. Share premium	**056**		148,620	148,620
3. Issued equity instruments (excluding capital)	**057**		0	0
4. Other equity instruments	**058**		0	0
5. Accumulated other comprehensive income	**059**		843,923	-17,107,256
6. Retained earnings	**060**		67,093,427	69,909,803
7. Revaluation reserves	**061**		0	0
8. Other reserves	**062**		15,182,803	16,102,199
9. Treasury shares	**063**		-6,592,348	-6,592,348
10. Profit or loss belonging to owners of parent company	**064**		3,735,771	6,093,726
11. Dividend during the business year	**065**		0	0
12. Minority (non-controlling share)	**066**		0	0
13. TOTAL EQUITY (AOP 055 to 066)	**067**		172,309,396	160,451,944
14. TOTAL EQUITY AND LIABILITIES (AOP 054+067)	**068**		1,535,120,179	1,595,731,200

SLATINSKA BANKA d.d., Slatina
Appendix 2 - Annual financial statements of the Bank (in HRK) compiled according to the Decision on the structure and content of annual financial statements of credit institutions

Income Statement
for the period 1 January 2022 to 31 December 2022

Form BAN-RDG

Entity: SLATINSKA BANKA D.D.

Position		AOP Code	Note no	Previous year	Current year
1		2	3	4	5
1.	Interest income	069		52,667,923	54,126,637
2.	Interest expenses	070		3,410,485	2,544,344
3.	Expenses from T1 capital returned upon request	071		0	0
4.	Income from dividends	072		0	0
5.	Fee and commission income	073		12,613,986	13,450,443
6.	Fee and comission expenses	074		3,840,971	3,852,889
7.	Gains or losses after ceasing recognition of financial assets and financial liabilities not measured at fair value through profit or loss, net	075		160,377	49,576
8.	Gains or losses from financial assets and financial liabilities held for trade, net	076		2,006,396	2,131,259
9.	Gains or losses from financial assets not held for trade, measured at fair value through profit or loss, net	077		-224,132	-15,339
10.	Gains and losses from financial assets and financial liabilities at fair value through profit or loss, net	078		0	0
11.	Gains or losses from hedge accounting, net	079		0	0
12.	Exchange differences (profit or loss), net	080		53,750	73,230
13.	Gains or losses after ceasing recognition of non-financial assets, net	081		0	0
14.	Other operating income	082		1,231,108	215,609
15.	Other operating expenses	083		930,992	278,637
16.	**TOTAL OPERATING INCOME (AOP069-070-071+072+073-074+075 to082-083)**	084		60,326,960	63,355,545
17.	Administrative expenses	085		42,762,487	45,528,239
18.	Cash contributions to resolution committees and deposit insurance schemes	086		7,516	1,398,549
19.	Amortisation	087		4,065,910	4,141,230
20.	Gains or losses due to change, ner	088		0	0
21.	Provisions or discontinuation of provisions	089		-259,570	401,569
22.	Impairment or discontinuation of impairment of financial assets not measured at fair value through profit or loss	090		8,652,896	3,073,309
23.	Impairment or discontinuation of impairment of investment in subsidiaries, joint ventures and affiliates	091		0	0
24.	Impairment or discontinuation of impairment of non-financial assets	092		0	31,340
25.	Negative goodwill recognised in profit or loss	093		0	0
26.	Share in profit or loss from investemnts in subsidiaries, joint ventures and affiliates, calculated by share method	094		0	0
27.	Profit or loss from fixed assets and disposal groups classified as ready for sale and not qualified as non-continuing	095		0	0
28.	**PROFIT OR LOSS BEFORE TAXATION (FROM CONTINUING OPERATIONS) AOP 084-085+087-088 to091+092 to 094**	096		5,097,721	8,781,309
29.	Tax income or expenses from continuing operations	097		1,361,950	2,687,584
30.	**PROFIT OR LOSS AFTER TAXATION (FROM CONTINUING OPERATIONS) AOP 095-096**	098		3,735,771	6,093,725
31.	Profit or loss after taxation (from non-continuing concern operations) (AOP 099—100)	099		0	0

31.1. Profit or loss before taxation (from non-continuing operations)	**100**		0	0
31.2.Tax income or expenses from non-continuing operations	**101**		0	0
32. PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097+098; 102+103)	**102**		3,735,771	6,093,725
33. Attributed to minority (non-controlling) share	**103**		0	0
34. Attributed to owners of parent company	**104**		0	0
STATEMENT OF OTHER COMPREHENSIVE INCOME				
35. Profit or loss for the current year (AOP 101)	**105**		3,735,771	6,093,725
36. Other comprehensive income (AOP 106+118)	**106**		1,392,178	-17,951,178
36.1.Items not reclassified into profit or loss (AOP 107 to 113+116+117)	**107**		1,805,473	309,527
36.1.1. Tangible assets	**108**		0	0
36.1.2. Intangible assets	**109**		0	0
36.1.3. Actuarial gains or losses on employer sponsored pension plans	**110**		0	0
36.1.4. Fixed assets and disposal groups ready for sale	**111**		0	0
36.1.5. Share of other recognised income and expenses from subjects calculated by share method	**112**		0	0
36.1.6. Changes of fair value of equity instruments measured at fair value through other comprehensive income	**113**		1,805,473	309,527
36.1.7. Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	**114**		0	0
36.1.8. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	**115**		0	0
36.1.9. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)	**116**		0	0
36.1.10. Changes of fair value of financial liabilities measured at fair value through profit or loss, attibuted to changes in currency risk	**117**		0	0
36.1.11. Corporate income tax related to non-reclassified items	**118**		0	0
36.2.Items that can be reclassified into profit or loss (AOP 119 to 126)	**119**		-413,295	-18,260,705
36.2.1. Hedging of net investment in foreign operations (effective shares)	**120**		0	0
36.2.2. Calculation of foreign currency	**121**		0	0
36.2.3. Hedging of cash flows (effective shares)	**122**		0	0
36.2.4. Risk protection insrtruments (not determined)	**123**		0	0
36.2.5. Debt instruments at fair value through other comprehensive income	**124**		-413,295	-18,260,705
36.2.6. Fixed assets and disposal groups ready for sale	**125**		0	0
36.2.7. Share of other recognised income and expenses from investment in subsidiaries, joint ventures and affiliates	**126**		0	0
36.2.8. Corporate income tax related to items that can be classified into profit or loss	**127**		0	0
37. Total comprehensive income of the current year (AOP 104+106 and AOP 128+129)	**128**		5,127,949	-11,857,453
38. Attributed to minority (non-controlling) share	**129**		0	0
39. Attributed to owners of parent company	**130**		0	0

STATEMENT OF CASH FLOWS – Indirect method

for the period 1 January 2022 to 31 December 2022

Form BAN-NTI

Entity: SLATINSKA BANKA D.D.

Position		AOP Code	Note no.	Previous year	Current year
1		2	3	4	5
Operating activities and adjustments					
1.	Profit / loss before taxation	**001**		5,097,721	8,848,433
2.	Impairment ad provisions	**002**		8,393,326	3,474,878
3.	Depreciation	**003**		4,065,910	4,141,230
4.	Net gains/ losses from financial assets at fair value through profit or loss	**004**		-224,132	-15,339
5.	Gains/losses from sale of tangible assets	**005**		0	0
6.	Other non-monetary items	**006**		0	0
Changes in operating assets and liabilities					
7.	Deposits with CNB	**007**		25,231,035	-4,376,173
8.	Deposits with banking institutions and loans to credit institutions	**008**		-12,411,966	-5,798,695
9.	Loans to other clients	**009**		-29,575,759	-35,818,444
10.	Securities and other financial instruments at fair value through other comprehensive income	**010**		35,325,806	15,135,629
11.	Securities and other financial instruments held for trade	**011**		0	0
12.	Securities and other financial instruments not actively traded and evaluated at fair value through profit and loss	**012**		0	0
13.	Securities and other financial instruments measured at fair value through profit or loss	**013**		-142,448	1,521,490
14.	Securities and other financial instruments measured at amortised cost	**014**		697,356	-15,425,962
15.	Other operating assets	**015**		-705,963	-705,117
Increase/decrease in operating liabilities					
16.	Deposits from financial institutions	**016**		-718,644	636,001
17.	Transaction accounts of other clients	**017**		158,796,608	144,923,220
18.	Saving depostis of other clients	**018**		29,014,044	-17,449,307
19.	Term deposits of other clients	**019**		-146,396,034	-52,751,146
20.	Derived financial liabilities and other trading liabilities	**020**		0	0
21.	Other liabilities	**021**		-27,020,410	-16,192,826
22.	Collected interest from operating activities	**022**		1,789,953	1,520,176
23.	Received dividends from operating activities	**023**		0	0
24.	Paid interest from perating activities	**024**		-652,487	-691,332
25.	Paid corporate income tax	**025**		0	-408,557
A)	**Net cash flow from operating activities (AOP 021 to 024)**	**026**		50,563,916	30,568,159
Investing activities					
1.	Receipts from sale / purchase / tangible and intangible assets	**027**		-5,935,732	-7,142,001
2.	Receipts from sale / purchase / investments in subsidiaries, joint ventures and affiliates	**028**		0	0
3.	Collection/ purchase / debt and other financial instruments from investin activities	**029**		0	0
4.	Received dividents from investing activities	**030**		0	0
5.	Other receipts / payments / from investing activities	**031**		0	0
B)	**Net cash flow from investing activities (AOP 026 to 030)**	**032**		-5,935,732	-7,142,001

Financing activities				
1. Net increase / reduction in received loans	**033**		-8,339,838	-4,121,055
2. Net increase / reduction in issued debt securities	**034**		0	0
3. Net increase / reduction in subordinate and hybrid instruments	**035**		0	0
4. Increase in T1 capital	**036**		0	0
5. Paid dividends	**037**		0	0
6. Other receipts / payments from financing activities	**038**		200,593	916,612
C) Net cash flow from financing activities (AOP 032 to 037)	**039**		-8,139,245	-3,204,443
D) Net increase / reduction in cash and cash equivalents (AOP 025+031+038))	**040**		36,488,939	20,221,715
Cash and cash equivalents at the beginning of the year	**041**		299,756,120	336,245,059
Influence of changes in exchange rate on cash and cash equivalents	**042**		0	0
Cash and cash equivalents at the end of the year (AOP 039+040+041)	**043**		336,245,059	356,466,774

SLATINSKA BANKA d.d., Slatina
Appendix 2 – Annual financial statements of the Bank (in HRK) compiled according to the Decision on the structure and content of annual financial statements of credit institutions

CHANGES IN EQUITY

for the period 1 January 2022 to 31 December 2022

Form BAN-PK

Form BAN-PK

Entity: SLATINSKA BANKA D.D.

Position	AOP	Note no.	Attributed to the owners of parent											Minority interest		Total
			Share capital	Share premium	Equity instruments (other than share capital)	Other shares	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit/loss attributable to the owners of parent	Dividend	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 do 16)
1. Opening balance (before corrections)	**01**		91,897,200	148,620	0	0	843,923	67,093,427	0	15,182,803	-6,592,348	3,735,771	0	0	0	172,309,396
2. Effect of corrections	**02**		0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Effects of changes in accounting policies	**03**		0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Opening balance (current period) (AOP 01 to 03)	**04**		91,897,200	148,620	0	0	843,923	67,093,427	0	15,182,803	-6,592,348	3,735,771	0	0	0	172,309,396
5. Issuing regular shares	**05**		0	0				0	0	0					0	0
6. Issuing preferred shares	**06**		0	0	0			0	0	0					0	0
7. Issuing other equity instruments	**07**				0			0	0	0					0	0
8. Execution or expiration of other issued equity instruments	**08**				0			0	0	0					0	0
9. Transfering liabilities into equity instruments	**09**		0	0	0	0		0	0	0					0	0
10. Reduction in capital	**10**		0	0				0	0	0	0	0			0	0
11. Dividends	**11**		0	0	0	0		0	0	0	0		0		0	0
12. Purchase of treasury shares	**12**							0	0	0	0			0	0	0
13. Sale or cancellation of trasury shares	**13**							0	0	0	0			0	0	0
14. Reclassification of financial instruments from equity to liability	**14**		0	0	0	0									0	0
15. Reclassification of financial instruments from laibility to equity	**15**		0	0	0	0									0	0
16. Transfer between equity instruments components	**16**				0	0	0	2,816,376	0	919,395		-3,735,771	0	0	0	0
17. Increase or decrease of equity instruments as a consequence of business combinations	**17**		0	0	0	0	0	0	0	0	0				0	0
18. Increase based on shares	**18**		0	0		0									0	0
19. Other increase or decrease of equity instruments	**19**				0	0	0	0	0	0	0	0	0	0	0	0
20. Total comprehensive profit for the current year	**20**						-17,951,179	0	0	0		6,093,726		0	0	-11,857,453
21. Closing balance (current period) (AOP 04 to 20)	**21**		91,897,200	148,620	0	0	-17,107,256	69,909,803	0	16,102,198	-6,592,348	6,093,726	0	0	0	160,451,943

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

ASSETS	in '000 HRK	ASSETS	in '000 HRK	Note	Difference
1. Cash, cash receivables from credit institutions and other demand deposits	**356,467**	**Cash and cash equivalents**	**356,467**	**15**	**0**
3. Non-traded financial assets measured at fair value through profit or loss	**0**	**Financial instruments at fair value through profit or loss**	**0**	**16**	**0**
5. Financial assets at fair value through other comprehensive income	**216,911**	**Financial assets at fair value through OCI**	**216,911**	**17**	**0**
6.1. Debt securities	**15,426**	**Financial assets at amortised cost**	**15,426**	**18**	**0**
6.2. Loans and advances	**954,813**	**Loans**	**954,813**	**19**	**0**
10. Tangible assets	**22,944**	**Property, plant and equipment**	**22,944**	**20**	**0**
11. Intangible assets	**19,092**	**Intangible assets**	**19,092**	**21**	**0**
12. Tax assets	**1,100**	**Deferred tax assets**	**1,100**	**22**	**0**
13. Other assets	**8,978**	**Other assets**	**8,978**	**23**	**0**
15. TOTAL ASSETS	**1,595,731**	**Total assets**	**1,595,731**		**0**
LIABILITIES		LIABILITIES			
18.1. Deposits	**1,410,994**	Deposits	**1,410,994**	**24**	**0**
Other financial liabilities	**2,645**	Lease liabilities – IFRS 16	**2,645**	**25**	**0**
21. Provisions	**4,906**	Provisions for liabilities and expenses	**4,906**	**26**	**0**
22. Tax liabilities	**1,475**	Current tax liability	**1,475**	**27**	**0**
24. Other liabilities	**15,259**	Other liabilities	**15,259**	**28**	**0**
26. TOTAL LIABILITIES	**1,435,279**	Total liabilities	**1,435,279**		**0**
CAPITAL		CAPITAL		**29**	
27. Share capital	**91,897**	Share capital	**91,897**		**0**
28. Share premium	**149**	Share premium	**149**		**0**
29. Equity instruments issued (other than share capital)	**0**	Equity instruments issued (other than share capital)			
30. Other equity instruments	**0**	Other equity instruments			
31. Accumulated other comprehensive income	**(17,107)**	Fair value reserve	**(17,107)**		**0**
32. Retained earnings	**69,910**	Retained earnings	**76,004**		**-6.094**
33. Revaluation reserves	**0**	Revaluation reserves	**0**		**0**
34. Other reserves	**16,101**	Other reserves	**16,101**		**0**
35. Treasury shares	**-6,592**	Reserves on own shares	**-6,592**		**0**
36. Profit or loss attributable to the owners of parent	**6,094**	Profit or loss attributable to the owners of parent	**0**		**6.094**
37. Dividends	**0**	Dividends	**0**		**0**
38. Minority (non-controlling) interest	**0**	Minority (non-controlling) interest	**0**		**0**
39. TOTAL CAPITAL	**160,452**	TOTAL CAPITAL	**160,452**		**0**
40. TOTAL EQUITY AND LIABILITIES	**1,595,731**	TOTAL EQUITY AND CAPITAL	**1,595,731**		**0**

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

SLATINSKA BANKA d.d.
S L A T I N A

NADZORNI ODBOR

Broj: 24 – 2 / 2023

Zagreb, 31.03.2023. god.

Na temelju članka 15. Statuta Slatinske banke d.d. Slatina, Nadzorni odbor Slatinske banke d.d. Slatina, na prijedlog Sektora financija te Uprave banke, na svojoj korespodentnoj sjednici održanoj 31.03.2023. godine donosi sljedeću:

O D L U K U

Članak 1.

Usvajaju se sljedeća izvješća:

- Godišnje izvješće Slatinske banke d.d. Slatina za godinu koja je završila 31. prosinca 2022. god.
- Godišnje financijsko izvješće kreditnih institucija za godinu koja je završila 31.prosinca 2022.god. (GFI-KI)
- Godišnji financijski izvještaj za godinu koja je završila 31.prosinca 2022. god. (GFI-BAN)
- Godišnji financijski izvještaj ESEF XBRL na 31.12.2022.

Članak 2.

Ova Odluka stupa na snagu danom donošenja.

Predsjednik Nadzornog odbora

Domagoj Petrinović

SLATINSKA BANKA d.d.
1

Domagoj Petrinović
Digitally signed by Domagoj Petrinović
Date: 2023.04.15 18:23:30 +02'00'

Dostaviti:
1. Sektor financija
2. Uprava Banke
3. Pismohrana

SLATINSKA BANKA d.d.
S L A T I N A

NADZORNI ODBOR

Broj: 24 – 3 / 2023

Zagreb, 31.03.2023. god.

Na temelju članka 15. Statuta Slatinske banke d.d. Slatina, Nadzorni odbor Slatinske banke d.d. Slatina, na prijedlog Sektora financija te Uprave banke, na svojoj sjednici održanoj 31.03.2023. godine donosi sljedeću:

O D L U K U

Članak 1.

Usvaja se:

Izvještaj revizora i financijski izvještaji za godinu koja je završila 31. prosinca 2022. godine revizora PKF FACT REVIZIJA d.o.o. Zagreb, Zadarska 80

Članak 2.

Ova Odluka stupa na snagu danom donošenja.

Predsjednik Nadzornog odbora

Domagoj Petrinović

Domagoj Petrinović
Digitally signed by Domagoj Petrinović
Date: 2023.04.15 18:23:56 +02'00'

SLATINSKA BANKA d.d.

Dostaviti:
1. Sektor financija
2. uz Zapisnik Nadzornog odbora
3. Pismohrana