SLATINSKA BANKA d.d.
Vladimira Nazora 2, Slatina

ANNUAL REPORT
OF SLATINSKA BANKA d.d. SLATINA
FOR 2020

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SLATINSKA BANKA

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MANAGEMENT REPORT

MANAGEMENT REPORT ON THE FINANCIAL POSITION AND ANALYSIS OF BUSINESS PERFORMANCE

Dear clients and shareholders and employees,

In 2020, Slatinska banka d.d. recorded successful business results. Gross profits of HRK 2,289 thousand were recorded.

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

The balance of the Bank increased by about HRK 8 million compared to the previous year and amounts to HRK 1,502 million. Significant activities during 2020 were directed to optimisation of both the amount and the structure of the total liabilities of the Bank with a view of ensuring complementarity with the investment business policy of the Bank, which was achieved. The result of such an activity is visible in the reduction of the interest expense in 2020 by 30% compared to the previous year.
The financial data for 2020 is confirmation of the good business of Slatinska banka d.d.

The operation of the Bank during 2020 took place in difficult economic conditions caused by the coronavirus pandemic that causes the Covid 19 disease and at the same time in the conditions of stable liquidity, which is the long-term policy of the Bank. The Bank adopted assistance measures for citizens whose income was threatened by the pandemic, including expansion of the term for repayment along with the lowering of monthly instalments, moratorium to repayment of the principle not later than by 31 March 2021, and retaining the limit for the allowed credit card overdraft.

In 2020, loans and advance payments of the Bank were granted taking into account risks of the operation and clients’ creditworthiness.
Risk exposure, in particular exposure to credit risk, is monitored constantly, and the Bank will try to reduce their impact on the business performance in the following period.
Significant activities are aimed at improving the processes of collection of exposure and assets, which is evident through other generated revenue.

Due to the more cautious approach to approval of new investments conditioned by the above-mentioned pandemic, in 2020 we recorded lowering of borrowings and advance payments to clients by HRK 46.4 million (-5,45%) compared to 2019.

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

In 2020, the Bank invested in increasing the security and development of internal controls, development of card operation in compliance with the European standards, and continuing education of the employees of the Bank, all aimed at improving the bank services and ensuring better accessibility for clients.

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

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

We can assess the 2020 business year as very successful based on the accomplished business performance, especially for the reason that during 2020, we operated in difficult market conditions.

The Bank adapts to challenges posed by Covid 19, which affects change of the operation of the whole financial sector and the economy at large. In addition to the mentioned assistance measures, models are being conceived in an attempt to mitigate the negative impact of the newly created situation on the financial condition of clients. Availability of services through electronic channels as well as possibilities of withdrawing cash at all ATMs without a fee is increasing.

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

DEVELOPMENT OF SLATINSKA BANKA d.d. SLATINA

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

In terms of the organisation, the Bank is divided in 11 Sectors, within which specialist departments are defined.

On 31/12/2020, the Bank operated through a business network of 14 branch offices in the counties: Virovitica-Podravina, Osijek-Baranja, Požega-Slavonia, Brod-Posavina, Bjelogar-Bilogora, Koprivnica-Križevci, Primorje-Gorski Kotar County, and in the city of Zagreb.

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

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

The business model of the Bank is based on the principle of a universal local Bank, which is capable to provide its clients with an encircled financial service, which will be a determinant of future operations as well.

The operation of the Bank focuses on citizens, craftsmen, and small-sized and middle-sized entrepreneurs. Furthermore, the financial monitoring of local self-government units is a part of the directions of the Bank development. In late 2017, services of the Bank were expanded to include the investment banking service.

According to the requirements of the market, the operation of the Corporate Sector is primarily oriented to financial monitoring of the small-sized and middle-sized entrepreneurship, craftsmen, and holders of family farms, from both its own funds and the funds of HBOR, 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 a series of activities for sale of new services are undertaken.

An online cash credit service aimed to private individuals has been introduced with favourable terms so that clients and non-clients are enabled simpler funding. Furthermore, the Consolidation for 5 Service, a loan for closure of existing liabilities in other banks has been introduced. Taking out a cash loan for refinancing loans at any bank is fast and simple. Clients are offered a possibility to unburden their budget, while collecting all liabilities in other banks in one loan.

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

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

New technologies accelerate changes to which the Bank responds by improvement of the operation and carrying out changes and education of employees for adoption of new knowledge, all with a view of enhancing clients' satisfaction.
In accordance with the market trends, the Bank has introduced Mastercard and Maestro contactless cards that use the state-of-the-art technology for payment and enable contactless payment.

Further activities of the Bank in the next period will be directed to digitalising the operation and improvement of the process.

The 2020 business year is important because the positive course of trends of the operation was retained, as were the realistic assumptions for future profitable and stable operation.

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

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

ANALYSIS OF THE BANK OPERATION IN 2020

Table: Basic financial indicators of the operation of the Bank

	2020 (in HRK 000)	2019 (in HRK 000)	2020/2019 Index
ASSETS	1,501,582	1,494,336	100.48
PROFIT AND LOSS STATEMENT			
- Net interest-based income	49,100	51,956	94.50
- Net income from commissions and fees	7,778	9,047	85.97
- Other income from operation	2,214	24,948	8.87
- Other expenses from operation	-990	-3,586	27.64
- Administrative expenses from operation	-42,849	-38,196	112.18
- Depreciation	-4,451	-4,294	103.66
Result before impairment of value and provisions	10,802	39,875	27.09
- Impairment of value and provisions	-8,513	-35,955	23.68
Gross profit	2,289	3,920	58.39
- Profit tax	-933	-1,651	56.55
Net profit	1,356	2,269	59.74
TOTAL CAPITAL	167,183	165,620	100.94
REGULATORY CAPITAL	159,971	159,444	101.33
TOTAL CAPITAL RATE	19.43%	17.59%	110.46
ROA	0.09%	0.15%	60.00
ROE	0.82%	1.38%	59.42
CIR	81%	73%	110.96
NUMBER OF EMPLOYEES	179	176	101.70

Profit and Loss Account

In 2020, the Bank made profit in the net amount of HRK 1,356 thousand.

Compared to 2019, net interest income decreased by 5.50% or HRK 2.8 million and amounted to HRK 49,100 thousand.
The share of interest income in the total income was 80.10% as at 31/12/2020, which points out that the Bank significantly relies on the interest income. With the reduction of the interest income by 9.08% in 2020, interest expenses that made 10.77% of the total expenses were reduced by 30.19% in 2020 as a result of better management of deposits.

Net income from commissions and fees was generated in the amount of HRK 7,778 thousand, which was down by 14.03% compared to 2019. Income from commissions and fees showed 13.11% decline in 2020 whereas expenses from commissions also recorded a fall by 11.13%, which at the end resulted in the mentioned lowering net income from fees and commissions. Most of the reduction related to the lowering of income due to a decision on equalisation of the level of commissions in local and foreign payment transactions and as a consequence of the pandemic.

Other income was generated in the total amount of HRK 2,214 thousand, and it consists of net profits from the purchase and sale of foreign means of payment and foreign exchange differences (HRK 1,840 thousand), other income from operation due to one-off effects of collection in 2020 in the amount of HRK 3,009 thousand, and net non-realised loss of HRK 2,632 thousand related to one financial instrument in the portfolio of the bank.

General administrative expenses, including costs of contributions in the rehabilitation fund increased by 12.18%, whereas depreciation costs increased by 3.66%. General and administrative expenses also increased in the part of costs of workers, which was the consequence of empowerment of the organisation by employing experienced and professional staff with a view of continuation in raising the quality of the Bank operation management.

Other business expenses in the amount of HRK 990 thousand are result of the sales of the assets taken over in order to collect long-term receivables.

The indicating operating cost and operating income ratio (CIR) in 2020 amounted to 81% (which is an increase compared to 2019 when the same ratio with excluded one-off effects amounted to 73%).

Costs of provisions and impairment of value were HRK 8,513 thousand in 2020, a fall by HRK 27.4 million compared to 2020.
Complying with its policies and procedures, the Bank conducts regular assessment of exposure and makes adequate value adjustments of the exposures in question.

Balance of the Bank

The balance of the Bank as at 31/12/2020 amounted to HRK 1,501,582 thousand, up by HRK 7,246 thousand, or 0.49% compared to 2019.

The optimisation of source of assets, planned in line with the planned policy of placements, is carried out with a purpose of profitability, while maintaining high levels of liquidity.

Loans and advance payments to clients amounted to HRK 889,464 thousand, which was lower by HRK 67,671 thousand, or by 7.07%, mostly due to the decreased level of investments to the corporate sector and in the part of the investment banking portfolio.

Towards the end of the fourth quarter of 2019, the Bank sold its 100% share in Turbina d.o.o. Slatina (which made 0.36% of the total assets of the Bank in 2018) so there are no other companies that would be included in consolidation.

Deposits, which make the primary source of funding, together with received loans, amounted to HRK 1,309 million and were lowered by HRK 7,017 thousand (0.54%).

An overview of the placement structure per sector and the asset sources is given below

Table: Placement structure per sector

(in HRK 000)

	31.12.2020.	%	31.12.2019.	%
CORPORATES	367,886	24%	400,723	27%
- Companies	267,449		294,593	
- Private individuals (craftsmen, family farm holders, etc..)	78,113		81,504	
- Local government and non-profit organisa-tions	18,153		19,963	
- Other	4,170		4,663	
RETAIL	418,828	28%	406,473	27%
FINANCIAL INSTITUTIONS	28,051	2%	45,051	3%
INVESTMENT BANKING	2,770	0%	30,075	2%
DEBT SECURITIES	266,147	18%	278,224	19%
OTHER PLACEMENTS AND ASSETS	417,901	28%	333,790	22%
TOTAL:	1,501,582	100%	1,494,336	100%

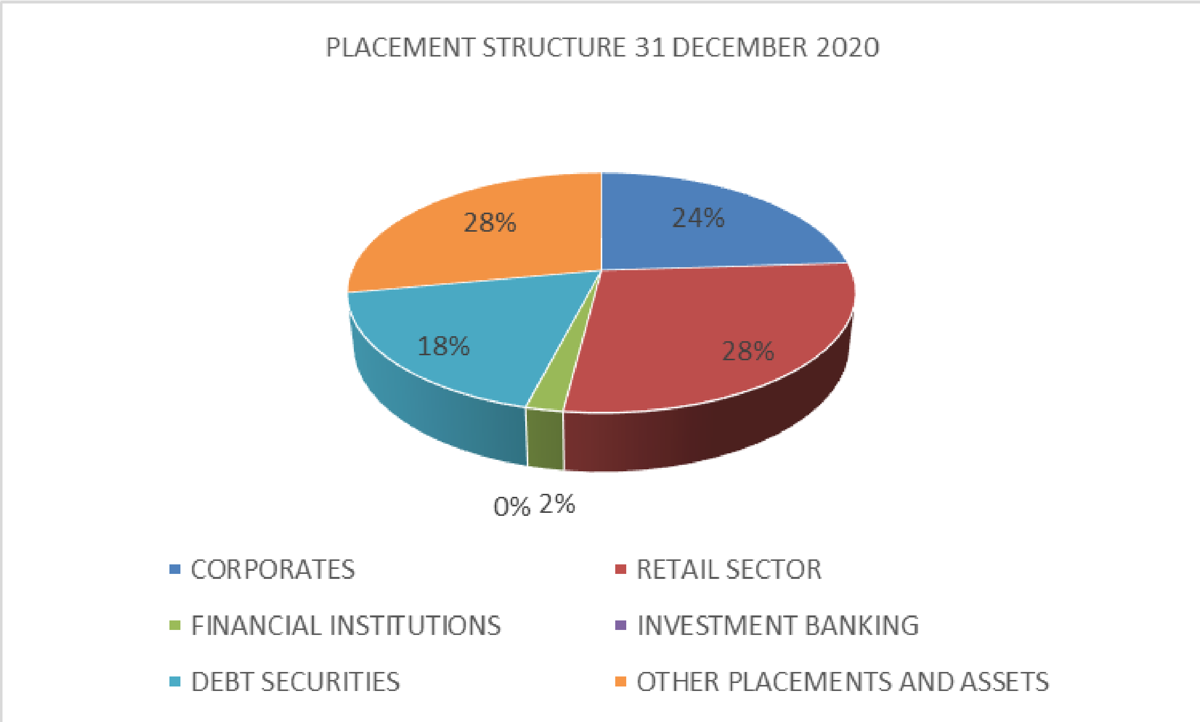
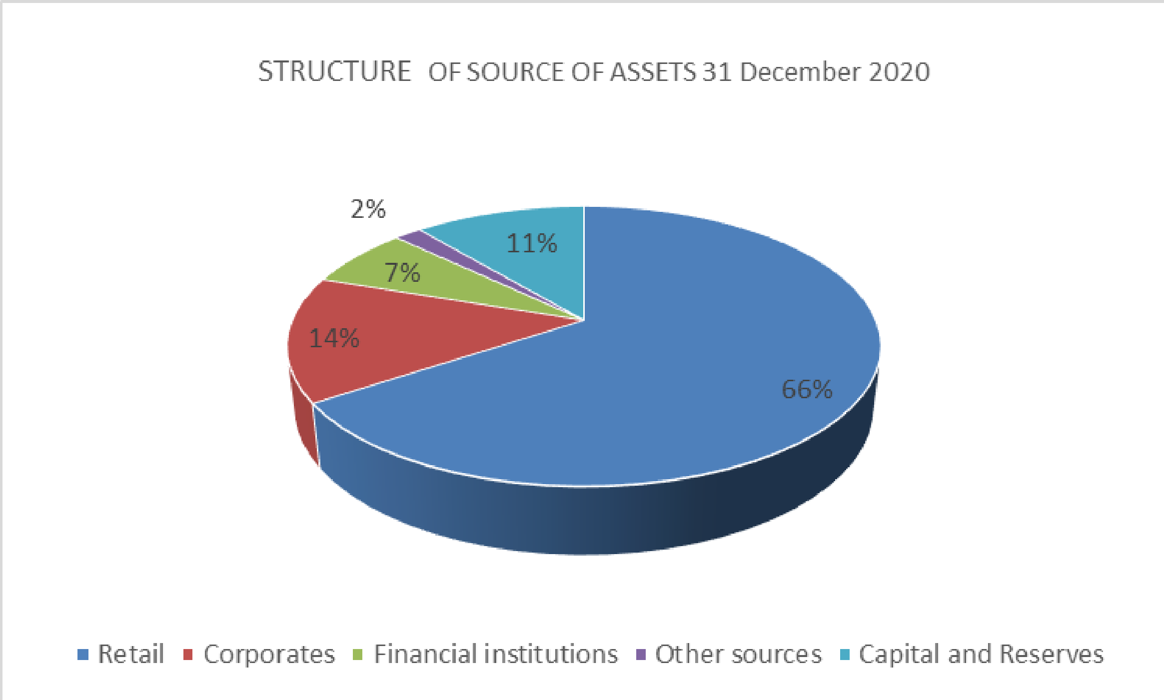


Table: Asset source structure per sector

(in HRK 000)

	31.12.2020.	%	31.12.2019.	%
RETAIL	986,169	66%	1,024,457	69%
CORPORATES	217,449	14%	212,868	14%
- Companies	115,943		115,094	
- Private individuals (craftsmen, family farm holders, etc..)	58,286		50,652	
- Local government and non-profit organisations	43,221		47,122	
FINANCIAL INSTITUTIONS	104,232	7%	62,327	4%
OTHER SOURCES	26,537	2%	29,064	2%
CAPITAL AND RESERVES	167,183	11%	165,620	11%
TOTAL:	1,501,582	100%	1,494,336	100%



Retail Banking

Slatinska banka d.d. has maintained its market position in the retail banking segment by monitoring the market trends and on-going improvement of operations and service quality.

Monitoring the needs of clients and orienting to their satisfaction, the Bank offers innovative and universal financial services, combining traditional and modern distribution channels.

Having in mind the importance of socially responsible operation and sustainable development, the Bank focuses on the satisfaction and creation of encouraging surroundings for its employees, as well as development of the community in which it operates, including care for people.

By expanding the range and functionality of its services and introducing new technologies, the Bank offers the retail segment traditional and market-acceptable forms of savings, credit lines primarily for non-purpose loans, payment transaction services and online banking services.

As a consequence of the COVID-19 pandemic and the earthquake, decrease of the credit activity of the population occurred, and thus the number of current accounts and credit cards dropped by 1.5% and 5.1% respectively. The Bank recorded a growth of credit exposure of the population by HRK 9.5 million, or 2.3%. Furthermore, during 2020, a growth of the number of active online services by 21.9% occurred.

Health and general wellbeing of our clients and employees is at the first place to us, so we donated funds for assistance to citizens affected by the disastrous earthquake.

At the same time, we actively offered and granted measures for moratorium of liabilities to our clients as per credit accounts, and we additionally improved the credit portfolio by selling a part of non-profit receivables.

The Bank has a strong liquidity position and a solid potential to support the credit activity and recovery of our clients.

In the area of the retail credit operations, the Bank adjusted the conditions of crediting of customers to their needs through simple loan products and introduction of new credit lines. The Bank strives to achieve digital transformation and modernisation of operations through new digital channels of product distribution. It offers customers an opportunity for repayment of loans in up to 10 years for consumer credits, and concerning housing loans, a repayment term of up to 20 years. The Bank offers loans with fixed interest rates and variable interest rates related to the National Reference Rate (NRR).

The operation of the Bank in retail encompasses the following organisational parts: The Sales Management Department, which organises, develops, coordinates and monitors the operation of the business network, shapes the model of goal setting and measurement of performance of the set goals of the business network, setting of sales plans and monitoring thereof, and the Product Development and Marketing Department, assigned with monitoring new and existing market trends and developing Bank’s products, in compliance with the market requirements, with a purpose of providing support to the business (sales) network and organising and implementing marketing campaigns and selecting the most effective communication channels for certain products to private individuals.

By investing in human potentials and their continuing education and personal development, clients are ensured superb service, whereby a personal approach between the client and the Bank is developed.

Corporate Transactions

Banking in the corporate segment is primarily directed to financial monitoring of the micro, small-sized and middle-sized entrepreneurship, craftsmen and family farm holders, predominantly from own funds and through credit lines in cooperation with local government units.

Placements in the corporate segment in 2020 were HRK 360.9 million, which accounted for 24% of share in the total assets of the Bank.
The Bank has developed business cooperation with the Croatian Agency for SMEs, Innovations and Investments (HAMAG BICRO) for the issuance of individual and portfolio guarantees funded from the European structural and investment funds, whose goal is to create in the best possible manner a financial model that would provide a complete and high quality financial service adjusted to the dynamic market conditions. Furthermore, the business cooperation with the Croatian Bank for Reconstruction and Development (HBOR) enables a more diverse offer of credit lines for clients of the Bank using loans from the HBOR sources.

We put a special emphasis on our farmers by monitoring their operation and adjusting products to their needs.
Moreover, the Bank takes active part in funding the local government and self-government units, which ensures addressing developmental infrastructure needs in a proper manner and creating a good basis for further economic development of areas in which the Bank operates.

Besides crediting, the Bank also offers business entities issuance of all forms of guarantees, from HRK to foreign currency guarantees, bid, performance and payment guarantees, letters of credit, and other forms of guarantees required by the present conditions of operation.

In order to facilitate the operation of clients who have financial difficulties caused by loss and reduced source of income/earnings caused by the coronavirus pandemic during 2020, we adopted a series of measures of assistance in order to facilitate the financial operation of entrepreneurs and enable as faster growth of their business activities. Credit worthiness, good development programmes and competence of the management make the fundamental preconditions for financial monitoring of clients. The goal we want to achieve is to be recognised as a reliable partner in the local market by entrepreneurs, with an individual approach to the client and quality service and service adapted to their needs, which will help them achieve their goals more easily.

By developing and improving its operations, we also offer legal entities other services that ensure faster, simpler and more efficient operation using a daily-and-nightly safe vault, the EFTPOS terminal, MasterCard Business Charge cards, SMS services, and especially online services, i.e. the Internet and mobile banking.
Due to the current specifics in the operation of entrepreneurs, we ourselves have also adapted to the new ways of operating and prefer online communication, with a partner approach and reduced documentation wherever possible.

The basic activities of the Bank in its operations with the corporate sector will further on be directed again to development and increasing of quality of services that the Bank offers to entrepreneurs, and to further common development of mutual business trust and partnership, while adapting to the modern methods of operations.

Payment Transactions

Last year, 2020, imposed on us a number of challenges, which have been dealt with successfully together with other stakeholders (above all the COVID 19 pandemic) in the financial market. Successful and safe functioning of the payment transactions (national, cross-border, and international) is of exceptional importance for all the clients of the Bank and other participants in the payment transactions. The payment transactions are performed through a network of branches (counters) of the Bank, ATMs, daily-and-nightly safety vaults, through the network of branches of FINA as well as by modern electronic payments (Internet banking and mobile banking). During 2020, payment habits and payment channels changed significantly, not only because of development of new technologies like the smartphones, but also because cash payments were significantly replaced by electronic payments (card payments, internet and mobile banking), and as a consequence of the pandemic.
Quality and speed of service and maintaining security is still a guide in management and running payment transactions in the Bank.

The Bank has a developed network of correspondent banks. Foreign currency payments are made through the SWIFT Alliance application and the Bank is an active participant in the HSVP and TARGET2 systems. Moreover, it is also an active participant in the EuroNKS and NKSkn systems, by which it is directly involved in the Single Euro Payments Area (SEPA) payment system.
Since 2017, the Bank has been an active participant in the SEPA Direct Debit basic and business payment scheme.

For the payment transaction operations, the Bank uses its own programme support that makes the technical basis for quality provision of payment transaction services in both the country and abroad.
During 2019, the Bank established a dedicated interface PSD2-API, through which new providers of payment services are enabled access to accounts kept in the Bank by clients, in line with the Directive 2015/2366 on payment services in the internal market (PSD2) and supplements with regard to technical

standards for strong customer authentication and common and secure open standards of communication (RTS).

Continuing increase of the number and volume of transactions shows clients' satisfaction with the new payment transaction services and competitive fee rates, which in return enable the clients to better manage their assets at transaction account.

The activities of the Bank towards development of the payment transaction services are carried out with a purpose of the Bank's enabling its clients and participants in the payment transactions an acceptable, efficient, good, and financially advantageous offer of services to the mutual satisfaction, while respecting the maximum safety, speed as well as simplicity in the payment transactions.

Information System of the Bank

The information system of the Bank represents the comprehensiveness of people, organisation, technological infrastructure, and procedures for collection, processing, generating, storage, transfer, view, and distribution of information. The information system can also be defined as interaction of the information technology, data, and procedures for processing data and people that collect the stated data and use them.

The technological base of the information system of the Bank consists of the CORE server for bank and non-bank applications, which is replaced by a new version of IBM Power System S914, which ensured preconditions for the future growth of the Bank and expansion of the number of services. Outside locations - branches are connected through a virtual private network with ensured redundant connection in case of outage of the data link, and more than 50% of the network equipment has been restored. In addition to the business network, banking services are also made available through other distribution channels such as the Internet banking, mobile banking and the EFTPOS device. ATMs, and through the PSD2 interface in line with the applicable regulation.

With regard to continuity of operations, mostly because of the COVID 19 pandemic that posed new challenges with a view of enabling operation from a distant location and increasing security of connection to the systems of the Bank, the Bank worked intensively on employees' awareness concerning cyber security, in addition to the expansion of the number of licenses and procurement of new equipment, and enabling access to as many employees for work at home. Because of intensified attempts of external attacks against external systems of the Bank, they were repelled, monitored and supervised successfully. For the needs of the internal education of the employees of the Bank, the Moodle LMS-based Learning system was set up, enabling creation of fast testing and automated verification of answers in addition to education and knowledge dissemination.

As a part of digital transformation, a project was set up with the aim of establishing the loan processing process for the retail sector, which will ensure, in addition to acceleration of the granting process, better assessment of clients' portfolios through newly defined scoring conditions, and automated printouts of loan contracts and other products of the Bank. In this way, in addition to introducing a technologically more advanced solution, optimisation of the process itself was made, and in the end, it will ensure long-term savings and lower the costs of processing of applications.

BUSINESS RISKS

Risk Management Policy and Strategy

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

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

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

Risk Management Organisation

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

Risk Committee

The Risk Committee is a central organisation body for the risk management completeness.
The Risk Committee continually discusses all the risks the Bank is exposed to through a defined reporting system, with a purpose of defining future business policies of the Bank.

Credit Risk Management Sector

The Credit Risk Management Sector performs operative management of credit risk. Collateral management jobs are also performed, which includes review of the collateral assessment, monitoring of collateral values, and giving opinion on collaterals that the Bank accepts in the loan approval procedure.

The following positions are involved in the operation of the Credit Risk Management Sector:
- Senior Professional Associate for Credit Risk and Credit Related Risk Management,
- Senior Professional Associate for Credit Risk Management.

Risk Sector

The Risk Sector carries out operational management of all the risks, except the credit one, and monitoring and measuring of all the risks the Bank is exposed to.
The following positions are involved in the operation of the Risk Sector:
- Professional Associate for Market and Other Risk Management,
- Senior Professional Associate for Credit Risk Monitoring and Measuring,
- - Senior Professional Associate for Market and Other Risk Monitoring and Measuring

The Risk Control Function is performed by the Risk Sector Director.

Collection Sector

The Collection Sector operatively manages all credit exposures where default in meeting liabilities exists. The Collection Sector undertakes all the measures for collection of receivables, both voluntarily and in an enforced manner. Cases where the Bank cannot make the agreed collection in a regular process. Besides the above, the Collection Sector also proposes loan restructuring, and gives proposals for sale of part of non-profit bearing investments.

Risk Exposure

The Bank is exposed to the following risks in its operation:
1) Credit risk
- Credit risk of the other contracting party,
- Currency induced credit risk,
- Interest induced credit risk,
2) Market risks
- Position risk,
- Foreign exchange risk,
- Commodity risk,
3) Interest rate risk in the Bank book,
4) Liquidity risk (liquidity financing risk, market liquidity risk),
- Liquidity financing risk,
- Market liquidity risk,
5) Operational risk within which lack of internal controls,
6) Compliance risk,
7) Concentration risk,
8) Residual risk,
9) Country risk,
10) Strategic risk within which, new product and business line risk,
11) Excessive financial leverage risk,
12) Exposure to entities of shadow banking,

13) Reputation risk,

14) Assessment and monitoring of internal procedures that have been corrected due to the pandemic

14) Other risks (strategic risk, country risk, dilution risk, securitisation risk, managing risk, model risk, risk of adjustment to credit valuation, risk of free delivery, business risk, legal risk, migration risk, risk of externalisation, profitability risk, risk of investment in property, information system risk, risk of settlement, risk of non-conscientious conduct, risk of sustainability with emphasis on the environmental and climatic risks, and other risks which the Bank is or might be exposed to in its operations).

The risk level which the Bank is exposed to depends on multiple factors and all the stated risks do not influence the Bank in an equal manner. Detailed management of individual risks is prescribed in policies, ordinances, and procedures for respected risks.

Risk Profile

The Bank is not exposed to the securitisation risk because it does not perform securitisation jobs and will not enter jobs that condition dilution risk, so it will not be exposed thereto.
Furthermore, the Bank will not trade in goods in the market or in derived financial instruments related to goods, that is, it will not be exposed to the commodity risk.
Risk culture in terms of assuming and managing risk is presented to all the workers at all the levels so that they are clearly informed of the authority assigned to them.

Approach to Risk Management

A systemic approach to risk management is a key element for setting the strategy of the Bank in risk management.
The Bank management ensures that risk management is embedded in all business processes and all organisation segments.
The goal of risk management is achievement of optimum level of profitability with an acceptable risk level.
The Management and the Supervisory Boards, in line with their competences, are fully responsible for establishment, implementation and supervision of the management system.

Risk Management Process

The risk management process has to be adjusted to the type of risks which it relates to. Any process must contain the following as a minimum:

- risk determination,
- risk measurement,
- risk mitigation,
- monitoring and reporting on the risk,
- risk control.

Acceptable Risk Level

The Bank is obliged to ensure to have at any time an amount of capital adequate to the type, scope and complexity of the services provided and the risks it is exposed or could be exposed to in the provision of these services.

The Bank is obliged, for the purpose of safe and stable business, i.e. fulfilment of obligations towards its creditors, to maintain adequate regulatory capital adequacy. The regulatory capital of a credit institution should not be less than the law prescribed amount of the share capital or the Decision on the prescribed internal capital.

The Bank is obliged to operate in such a manner so as to be able at any time to timely meet due payment obligations (liquidity principle) and to be permanently able to meet all of its obligations (solvency principle).

In its risk-related policies, the Bank prescribes the level of acceptable risks for defined risks.

Reporting on Risk Exposure

The Management and the Supervisory Board of the Bank are informed regularly, from various risk aspects, about the portfolio quality, the indicators of the Recovery Plan and are provided with all information necessary for the assessment of risks which the Bank is exposed to. The report contains detailed information on exposures, risk assessments, concentrations and changes in the risk profile.

The Risk Sector also creates additional reports that provide it with information necessary for proactive risk management.
Control functions make 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 for receivables from which it will possibly collect its claims if a debtor of the Bank does not meet its obligations, i.e. ensure minimum credit risk.

Credit Risk

Credit risk is the most significant risk for the Bank. Credit risk is a risk of loss due to failure of debtors to meet their monetary liability towards the Bank.

Currency-induced credit risk and interest rate-induced risk are derivatives of credit risk and the Bank considers them separately.

The Bank has stipulated its credit risk management policy. The purpose of the policy is prescribing clear lines of authority and responsibility for the credit risk management within the Bank, the methodology for determining and measuring, i.e. assessment of the credit risk the Bank is exposed or could be exposed to, procedures for the risk mitigation and monitoring of the credit risk, including putting in place appropriate limits, procedures and measures if crisis situations occur.

The process of monitoring individual loans includes assessing of the credit worthiness of the debtor, a group of persons related to the debtor, regulatory in meeting the obligations and the quality of collaterals for securing the claims during the validity of the legal relation that makes the exposure.

Senior Professional Associate for Credit Risk Monitoring and Measuring makes analysis of the loan portfolio and is responsible for its production. The analysis is made every three months after the completion of the value adjustments and is presented to the Risk Committee.

We measure the credit risk through the process of monitoring loans and analysis of the portfolio in line with the Loan Monitoring Policy and the analysis of the credit portfolio and through the process of classification of loans according to risk levels, which is prescribed by the Ordinance on Classification of Exposures into Risk Categories and the Method of Determining Credit Loss.

The totality of compliance with the provisions of the Policy is implemented through the Risk Control Function, Sector Control Departments and the Internal Audit, according to the adopted annual plans.
After the controls have been carried out, the Risk Control Function, Sector Control Departments and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board.
The way of credit risk protection is continuous monitoring of individual loans in order to allow timely appropriate measures with a purpose of reducing the credit risk in the event of deterioration in the credit worthiness of the debtor or the provider of collateral for securing the claim.

Over the entire validity of the contractual relationship, the Bank assesses the credit quality of the exposure and classifies those exposures into the appropriate risk groups, based on the following criteria:
1) Creditworthiness of the debtor,
2) Regularity in the fulfilment of liabilities of the debtor toward the credit institution and other creditors, and
3) Quality of the collateral per individual exposure.

Three categories of value adjustment calculation are prescribed in line with the IFRS 9 requirements:
STAGE 1 (S1) – calculation of expected annual credit losses on an aggregate basis,
STAGE 2 (S2) – calculation of expected annual credit losses for the entire life time of exposure on an aggregate basis,
STAGE 3 (S3) – calculation of expected annual credit losses on individual basis

The main criteria/relevant data for classification of exposure into risk group are as follows:
- Days of delay,
- Status of the claims – Restructured loans , COVID-19,
- Blocking the account,
- Internal credit worthiness assessment,
- Status of a dead person.

Indicators suggesting that the debtor will not fully meet their liabilities are as follows:
1) evident significant financial difficulties of the debtor,
2) violation of the agreement, like default or delay in paying interest rates and/or the principal, or failure to meet other provisions of the agreement,
3) existence of a real possibility for initiation of a bankruptcy procedure or undertaking some other legal activity (financial reorganisation) that is caused by the bad financial status of the debtor,
4) based on the analysis of the System for early determination of increased credit risk and qualitative indicators on the loan portfolio of legal entities with early detected increased credit risk, they are as follows: reputation of the client, negative experiences in connection with the delivery of information to the Bank and initiated litigations.

Definition of the default status

The default status of individual debtors occurs when one of the following requirements or both following requirements are met:
(a) the Bank considers it probable that the debtor will not fully meet its obligations towards the Bank, its parent company or any of its subsidiaries without taking into account the possibility of collection of collateral;
(b) the debtor in default for more than 90 days has not fulfilled its liability accrued on any significant credit obligations toward the Bank, its parent company or any of its subsidiaries.
Reassigning the status of fulfilment of obligations is possible in cases where all causes that led to the default status are removed in a period of minimum three months.
It is necessary to analyse criteria that have led to the improvement of the financial situation of the debtor, which allows full and timely repayment of the credit obligations and make the debt repayment likely. The bank needs to be convinced that the improvement in credit quality is real and permanent, and that the financial condition of the debtor is satisfactory in order to change the status of default into the status of fulfilment of liabilities.

Based on this, we will monitor and analyse changes in the status of debtors or products where the status of default will occur shortly after the reassignment of the status of fulfilment of liabilities with the aim of re-examining our policies in relation to the reclassification of exposure.

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 delay,
2. blocking of the client,
3. worsening of the credit worthiness assessment,
4. natural person’s death,
5. appearing on monitoring lists of the Watch List and the System for Early Detection of Increased Credit Risk.

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

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

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

EAD

Calculation of exposure due to the default status (EAD) is exposure at the time of default of the client/claim. The discounted cash flows are taken into account as well as potential additional withdrawals from the credit lines.

MPD model

The MPD model applies the basic approach of calculation of the probability of default occurrence, based on the transition matrices using the Markov chain, after which the macroeconomic anticipations are implemented in a z-shift model. The time dimension is obtained by simply multiplying the appropriate matrices based on projections for future periods.

LGD

The Bank has defined the loss in the case of occurrence of a default status of the given financial mean depending on the segment and existence of collateral for the claim

DF

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

Strategic Risk

The Bank has prescribed the Policy for management of the strategic risk whose purpose is to define the strategic risk which the Bank is exposed to. The strategic risk is a possibility of occurrence of loss due to the lack of a long-term development component of the Bank, adverse business decisions, bad implementation of adopted decisions or lack of sensitivity to market changes.

The Risk Control Function is obliged to inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board on a semi-annual basis about the implementation of the annual plans of the balance.

The strategic risk is risk of loss that may arise due to adverse business decisions, lack of responsiveness to changes in the economic environment, etc.

This risk is linked to the strategic objectives of the Bank, developed business strategy in order to achieve strategic objectives, resources used to achieve those objectives and quality of implementation. Necessary resources for implementation of the business strategy consist of tangible and intangible assets, including the communication channels, operating systems, networks for the delivery and management capacities and capabilities. Through the process of measuring, the Bank will determine the realisation of adopted plans and the level of deviation from the adopted plans and strategic objectives of the Bank in order to establish in a timely manner the cause for the deviations and initiate actions to achieve the strategic objectives of the Bank.
Protection of the 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 rule out or alleviate certain deviations. The Bank may use services of external institutions in the process of mastering the strategic risk.

Residual Risk

The Bank has prescribed the Residual Risk Management Policy whose purpose is determination, measurement, mastering and monitoring and reporting about the residual risk. The residual risk is the risk of loss that occurs if the recognised techniques for reduction of the credit risk used by a credit institution are less efficient than expected.

Monitoring and reporting about the residual risk is carried out within the Risk Sector and the Risk Control Function.

Senior Professional Associate for Credit Risk Monitoring and Measuring submits a report to the Management on the residual risk management at least once in six months.

The Bank measures the residual risk by the ratio of bad debts (which are estimated to have been fully secured by the credit protection) and totally insured claims by the same kind of credit protection.

Another measure is monitoring of the records of sold property in legal/enforcement/bankruptcy proceedings and records of initiated and still unsold property with a purpose of obtaining information about the period of marketability of certain types of collaterals. Then making projections of taking property for a period of two years with a purpose of controlling the limits for further taking over the property.

Within the process of the residual risk management, if the credit risk mitigation techniques prove less efficient than expected during the loan approval, measures to control/reduce the credit risk shall be put in place.

Effects of the credit protection can be improved by a smaller proportion of the amount of claims in the estimated value of the instrument that is used as credit protection, avoiding the use of instruments used as credit protection that prove to be ineffective, and greater legal safety of used mitigation techniques, etc.

Reputation Risk

The Bank has prescribed the Reputation Risk Management Policy with a purpose of defining the reputation risk management. The reputation risk is potential negative impact on earnings and capital arising from negative public opinion.

Continuous monitoring of threats to the reputation in the context in which the Bank is mentioned in media, or which occur in the form of complaints from customers, or through reporting on the operational risk or through analysis.

Reputation risk measurement system:

Reputation is shaped by three factors: communication, media coverage (online and print), and experience of customers and the public.

In accordance with the foregoing, the reputation risk is measured in a way that we perform the following:

- analysis of customers' complaints,
- analysis of media articles in whose context the Bank is mentioned (positively or negatively),
- analysis of reported reputation risks within the operational risk.

Control is made through the performance of applied results obtained from the analysis on the basis of which the removal of negative reputation that referred to the Bank was targeted.

The totality of compliance with the provisions of the Policy is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans.

After controls have been carried out, the Risk Control Function, Sector Control Departments and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board.

The way for risk protection is to master the reputation risk in a way as to direct the public opinion about the Bank as desired.

Interest Rate Risk

The Policy of Interest Rate Risk Management in the Non-Trading Book defines the process of interest rate risk management and the process of interest rate risk management in the non-trading book that is linked to Decision on Interest Rate Risk Management in the Non-Trading Book. The process of the interest rate risk management in the non-trading book includes determination and identification of the interest rate risk, measuring, mastering and management;.along with monitoring, control and reporting on the interest rate risk. In addition to the foregoing, the acceptable level of the interest rate risk is also prescribed.
The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.
The control of the interest rate risk in the non-trading book is made through a quarterly Report on Exposure to the Interest Rate Risk in the Non-Trading Book, through an internal quarterly report on the interest rate risk, and through a semi-annual report on the operation of the Risk Control Function.
The Management of the Bank is informed by internal reporting on the interest rate risk by the Risk Committee, and on a quarterly basis, by the regulator through the Report on Exposure to the Interest Rate Risk in the Non-Trading Book. Based on the received information from the reports, the Management of the Bank manages the interest rate risk using interest rate risk management instruments.
Continuous monitoring of the interest rate risk using the method of analysis of movements of the interest rates in the market, the interest margin analysis, analysis of net interest income and analysis of the static gap model.
The acceptable level of interest rate risk based on analysis of the static gap model is to determine the Bank's exposure to the interest rate risk in the event of price changes per loan, that is per sources of funds and to ensure that the maximum cumulative gap between assets and liabilities in the periods up to 12 months does not exceed the limit of 20% of net assets. As long as the realised net interest income covers the total administrative costs, this is an acceptable level of risk based on the analysis of net interest income.
In addition to the above, we use the prescribed limit in accordance with the Decision on Interest Rate Risk Management in the Non-Trading Book, where the ratio of change in the economic value of the non-trading book and the regulatory capital of the Bank should not exceed 20%.
When prescribing and determining the annual plan (by which the Bank determines amounts of its planned loans and sources for individual products as well as the pace of their realisation, and the absolute value of the asset to which the Bank has a contracted right to accrue interest in relation to the liabilities to which the Bank has commitment to pay interest); then the Decision on Interest Rates (which affect the value of the interest rates, the variability of the interest rates and the possibility of contracting the variable interest rates, the method and the way of calculation of interest rates); and credit policies (which can affect the sectoral structure of loans by individual credit lines); and the Asset and Liability Management Policy (which affects the structure of assets and liabilities of the Bank), the impact of interest rate risk is taken into account, i.e. they influence the reduction of interest rate risk.

Operational Risk

The Risk Management Strategy of Slatinska banka d.d. provides for management of all risks, including the operational risk as well and the total process of determining, assessment and monitoring of the risk, taking into account the objectives of the Bank and undertaking the required activities, with a

purpose of mitigating the risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for the risk management.
The Operational Risk Management Policy defines the process of the operational risk management, methods, ways and procedures of monitoring of operational risks, identification, assessment, control, responsibilities and reporting on operational risks.
The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.
The control of the operational risk is made through a quarterly internal operational risk reporting, then through a semi-annual report on the operation of the Risk Control Function.
Risk assessment is performed by the self-assessment method, using the open assessment method, and structural questionnaires and workshops. Results of the assessment are presented through the risk matrix, which is defined with the amount of loss, frequency of loss and risk levels.
In case of emergence of a crisis situation, actions will be taken in compliance with the Going Concern Plan.

Crisis Situation Plans and Going Concern Plans
An Operational Risk Management Committee has been founded in the Bank. The main task of the Operational Risk Management Committee is ensuring continuity of operation and restricting losses in case of significant disturbance or cessation of operation. A significant operational risk for Slatinska banka is posed by possible financial loss above HRK 1 million, whereas significant disturbance of operation is loss above the amount of the allocated capital requirement for operational risk. From the perspective of non-financial indicator, determining the significance of the operational risk is the number of reported events that exceeds usual occurrences in the past periods for similar events.

An important aspect of the operational risk management is carried out through the mechanism of internal control of business activities in sectors, financial centres and branches as well as control functions.
Internal practices that are adequate for control of the operational risks are as follows: supervision of compliance with the assigned limits, protection against access to assets and records, ensuring the corresponding professionalism of the staff, determining business activities or services where profits seem not to be in line with the realistic expectations, regular check and adjustment of transactions and accounts.
Adequate control of procedures (verification of compliance with policies, system of documented approvals and authorisations), which are a component of regular activities, enables fast response to changing conditions and avoiding unnecessary expenses, and the control culture promotes good practices of risk management.

Foreign Exchange Risk

The Risk Management Strategy of Slatinska banka d.d. provides for management of all risks, including the foreign exchange risk as well and the total process of determining, assessment and monitoring of the risk, taking into account the objectives of the Bank and undertaking the required activities, with a purpose of mitigating the risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for the risk management.

According to the definition of market risks, besides the foreign exchange risk, the position risk and the commodity risk are considered to be market risks. Therefore, the Strategy has established that the Bank is not and does not plan to be exposed to the position and commodity risk since it will not enter into deals that can derive such risks.

The Market Risk Management Policy defines determination or identification, measuring, mastering and managing the foreign exchange risk; then monitoring, control and reporting on the foreign exchange risk, as well as an acceptable level of foreign exchange risk.
The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.
The control of the foreign exchange risk is made through a quarterly internal foreign exchange risk reporting, then through a semi-annual report on the operation of the Risk Control Function.
The continuing analysis of exchange rate movement is made by the Treasury Department, which informs the Management thereof. The Liquidity Committee also informs the Management of the Bank on all important changes forthwith.
Measuring the foreign exchange risk is made on a monthly and daily level, through the following methods, i.e. approaches:
- gap report - the basic foreign exchange risk measurement model. This contrasts foreign exchange asset and liability items and off-balance items, and calculates open positions of the bank in different currencies.
- daily measurement of the exposure of the bank to foreign exchange risk according to Decision on the Limitation of Bank's Exposure to Foreign Exchange Risk.
The total open foreign exchange position (increased by the position in gold) at the end of each business day, adopted internally, shall not exceed the amount of 30% of the regulatory capital of the Bank in conditions of stable exchange rate, otherwise, the instrument of foreign exchange risk management will influence its reduction.

Mastering and managing the foreign exchange risk is carried out by planning the foreign exchange structure of the assets and liabilities of the Bank, and continuing monitoring of the movement of the exchange rates of certain currencies and projection of their movement and influence on the operation of the Bank in the following manners: Annual plan, monthly liquidity plan, analysis of the exchange rate monthly movement.
Based on the determined plans and submitted reports, the Management of the Bank and the Liquidity Committee adopt specific measures with a view of as better management of foreign exchange risk.

Liquidity Risk

The Bank has instituted a process of liquidity risk management and adopted internal acts that are compliant with the respective provisions of applicable regulations in this segment of operation. Internal acts that relate to the said areas are as follows:
- Liquidity Risk Management Policy,
- Ordinance on the Liquidity Committee Operation,
- Action Plan in Case of Liquidity Crisis.

The liquidity risk management process consists of determining the liquidity risk and its measuring, mastering, monitoring, reporting, and control.

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

Concentration Risk

The Concentration Risk Management Policy, which is a constituent part of the Risk Management Strategy, prescribes a set of procedures and methods for determining, measuring, or assessing, mastering and monitoring the concentration risk.
The concentration risk is any individual, direct or indirect, exposure to a person, or a group of associated persons or a group of exposures that are connected with common risk factors such as the same economy sector, or geographic area, same type of jobs or commodity or application of credit risk lowering techniques, which can lead to such loss that could threaten further operation of the Bank.

The Risk Control Function is carried out in the Risk Sector, within which Senior Professional Associate for Credit Risk Management makes independent analysis of the concentration and credit risk, and gives a written opinion for a loan proposal for individually significant exposures.
The Risk Sector notifies the Management of the concentration risk once in three months. Furthermore, the concentration risk is analysed through semi-annual reports of the Risk Control Function in which all important risks which the Bank is exposed to are controlled and submitted to the Supervisory Board, Risk and Audit Committee and Bank Management.

The Bank carries out the concentration risk management in five manners:
1. Exposure to the corporate sector (excluding exposure to the Retail Sector, credit institutions, the Republic of Croatia and the Croatian National Bank) is measured by the ratio between exposure to the corporate sector and the total exposure of the Bank, as well as the proportion of value adjustments in the total exposure of a certain corporate sector. The corporate sector is represented by activity codes in the National Classification of Activities.
2. Exposure to investment funds is measured with the ratio between the exposure to a certain investment fund and the regulatory capital.
3. Exposure to collateral providers and credit protection providers is measured with the ratio between such secured exposures and the regulatory capital.
4. Exposure according to the Herfindahl-Hirschman Index is measured in three manners:
a) ratio of exposure to fifty largest clients and their associated persons, and the total exposure,
b) ratio between net individual exposure of activity (except financial institutions) and total exposure per activity,
c) ratio between the sum of large exposure, after the application of exemption and CRM, and the regulatory capital.
5. Exposure to groups of associated persons through identification and measurement of concentration that relates to individual persons and groups of associated persons.

The Concentration Risk Management Policy provides for the level of allowed exposure to the corporate sector, to investment funds and collateral provides and credit protection providers, and measures for the lowering thereof.

Country Risk

The Country Risk Management Policy, which is an integral part of the Risk Management Strategy, prescribes the policy and procedures for identification, measuring, monitoring and control of risk of the country where the debtor has a registered office, or residence.
The country risk is determined based on assessment of probability of default by the other contracting party with the registered office, or residence outside the Republic of Croatia, which derives from the economic and political factors that are specific for a certain country, and assessment of enforceability of the contract based on which a loan has occurred and the possibility for cashing the instrument for securing claims to the legislation of a country in a certain period.

For the purpose of monitoring the country risk, the Treasury Department is obliged to monitor the movement of the credit worthiness of the country, or the credit institution where the invested free foreign exchange currencies are found, about which it undertakes to notify the Management of the Bank twice a year. For those credit institutions that do not have credit worthiness of a selected external institution for assessment of credit risk, its credit capacity should be determined semi-annually.
The Treasury Department shall be obliged to submit a semi-annual report to the Credit Committee of the Bank about the good standing of legal entities where the Bank has invested money abroad. Based on the submitted reports, the Credit Committee will propose individual limits of maximum exposure to individual legal entities with the registered office or residence outside the Republic of Croatia, while paying regard to the country risk and the profitability of operations.

Excessive Financial Leverage Risk

The excessive financial leverage risk means risk that is derived from the vulnerability of an institution due to the financial leverage or potential financial leverage, which can lead to unwanted changes of its business plan, including enforceable sales of property that can result in loss or adjustment of valuation of its remaining property.
The extent of the financial leverage is calculated in a way that the measure of the capital of the institution is divided with the measure of the total exposure of the institution, and is expressed in percentage.
The Bank calculates the proportion of the financial leverage on the reference day of reporting.
Measure of the capital is basic capital.
Measure of the total exposure is a sum of value exposures to:
1) property,
2) derivative,
3) increases for credit risk of the other contracting party in repo transactions, transactions of lending/borrowing securities or goods to the other contracting party or from the other contracting party, transactions with good term of settling and other credit margins,
4) Off-balance items.

Risks Derived from Exposure to Shadow Banking Entities

This is a risk of credit brokerage system that involves entities and activities outside the regulated banking system.

By defining its credit brokerage activities, the Bank has put emphasis on all the entities that perform activities similar to banking activities, are exposed to similar risks, and are not subject to similar regulatory framework. Such exposures will be determined and defined as exposures to shadow banking.
When processing an application for exposures of the Bank towards a client, it should be necessarily determined whether it is about shadow banking entities by the credit official/official of the Treasury Department who processes the application. Control in form of opinion is performed by Senior Professional Associate for Credit Risk Management. If the assets of the client have an item - loans lent and/or the profit and loss statement has an item - financial income, such a client should be processed further in terms of determining whether this is about a shadow banking entity. The processing should include determining the share of loans given, deposits in the total assets and share of financial income in total income.

Summary of the Internal Capital Adequacy Assessment

Significant risks	*Assessment of risk significance*	*Explanation of the significance assessment*	*Treatment in ICAAP*	
			Qualitative (YES/NO)	*Quantitative (YES/NO)*
Credit Risk	*5*	*The risk is assessed as high risk (5) in the economic and RDG terms, and accordingly, the final assessment of significance is 5.*	*NO*	*YES*
Concentration Risk	*3*	*The risk is assessed as low risk (2) in the economic terms, and medium risk (3) in the RDG terms, and because of the importance of management of this risk and quantification of the risk within ICAAP, the final significance of the risk is assessed as medium (3)*	*NO*	*YES*
Management risk	*2*	*The risk is assessed in qualitative terms as low risk (2), and the final significance of the risk is assessed as low (2).*	*YES*	*NO*
Currency induced credit risk	*3*	*The risk is assessed as low risk (2) in the economic terms, and medium risk (3) in the RDG terms, and because of the significance of management of this risk and quantification of risk within ICAAP, the final significance of the risk is assessed as medium.*	*NO*	*YES*
Interest risk in the non-trading book	*3*	*The risk is assessed as medium risk (3) in both the economic and RDG terms, and accordingly, the final assessment of the significance of the risk is medium significance (3).*	*NO*	*YES*
Foreign Exchange Risk	*3*	*The risk is assessed as immaterial (1) in both the economic and RDG terms because the Bank as a rule, holds a very low open position and as a rule does not allocate regulatory capital requirements. But because of the significance of management of this risk and because by methodology, this risk is quantified through capital requirements, it is given the medium significance (3).*	*NO*	*YES*

Liquidity risk including a possibility of collection of additional capital	*3*	*The liquidity risk is assessed as low risk (2) but because of the significance of management of this risk, the final significance of risk is assessed as of medium significance (3).*	*YES*	*NO*
Operational Risk	*4*	*The risk is assessed as medium risk (3) in the economic terms, and as very high risk (4) in the RDG terms, and very high (4) in the qualitative terms, and accordingly, it is a very high significance of the risk (4).*	*NO*	*YES*
Strategic Risk	*2*	*The risk is assessed in the RDG and qualitative terms as low risk (2) and the final significance is assessed as low (2).*	*YES*	*NO*
Excessive Financial Leverage Risk	*2*	*The risk is assessed as low risk (2) in qualitative terms, and is given low significance (2).* *Based on the preferred risk profile and planned growth, the Bank will control and monitor risk of excessive financial leverage as a tool of supervision of disproportional growth of exposure in relation to regulatory capital.*	*YES*	*NO*
Influence of external factors	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2).*	*YES*	*NO*
Country risk	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2). The quantification itself is carried out through the basic credit risk (standardised approach).*	*YES*	*NO*
Residual risk (Risk of marketability of real property)	*3*	*The risk is assessed as immaterial (1) in both the economic and RDG terms, however because of the significant share of the credit portfolio insured and classified based on the instrument of insurance of real property, due to the importance of this risk management and the fact that the risk is quantified in ICAAP-u, the significance of the risk is assessed as medium (3).*	*NO*	*YES*
Shadow banking	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2).*	*YES*	*NO*

Compliance risk (risk of violation of regulation and conflict of interest)	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2).*	*YES*	*NO*
Risk of non-dedicated cash retail loans	*3*	*The risk is assessed as medium (3), therefore the significance of the risk is assessed as medium (3).*	*NO*	*YES*
Reputation Risk	*3*	*In qualitative terms, the risk is assessed as medium risk, and it is given the medium significance (3).*	*YES*	*NO*

DECLARATION ON APPLICATION OF THE CORPORATE MANAGEMENT CODE

In compliance with the rules of the Zagreb Stock Exchange, the Management and the Supervisory Board of Slatinska banka d.d. hereby declare that Slatinska banka d.d. applies the Corporate Management

Code drafted together by the Croatian Agency for Supervision of Financial Services and the Zagreb Stock Exchange.

Enclosed to this Declaration is the Annual Questionnaire for the 2020 Business Year.

The Bank has instituted a system of internal controls that is carried out with parallel actions of three mutually independent functions: Risk Control Function, Compliance Monitoring Function, and Internal Audit Function. The main features of the internal control system of the Bank are reflected in independent holders of control functions responsible for identification, assessment and management of risk, including the Risk Control and Compliance Functions, whereas the Internal Audit supervises the overall operation of the Bank.

Data on implementation of internal supervision and risk management, and data on shareholders of the Bank is contained in the Notes to Financial Statements.

Pursuant to the provision of the Bank Statute, the Management is prescribed to consist of two to five members.
Decision on the number of members of the Management is issued by the Supervisory Board of the Bank.
Members of the Management have to meet the conditions for the performance of the function member of the Management prescribed by the Company Act, Credit Institutions Act, and relevant by-laws and internal acts of the Bank (suitability, good image, required professional knowledge and competence, requirement for continuing education, experience, avoiding conflict of interest, and requirement for commitment in duty performance). Members of the Management together have to have professional knowledge, competences and experience required for independent and autonomous running of the credit institution affairs.

Suitability of an individual member of the Bank Management for performance of the respective function is the extent to which that person has features and meets the prescribed preconditions which ensure that they will perform their duties in a legal, safe, and stable manner.
Competence of the members of the Management is stipulated in the Rules of Procedure of the Management. The Management adopts decisions and conclusions in meetings.
On 31/12/2020, the Management duties were performed by 3 members (President of the Management and two members of the Management).

The Supervisory Board supervises the Bank's affairs and is responsible to perform jobs stipulated by the Companies Act, the Credit Institutions Act, the Bank Statute and the Rules of Procedure of the Supervisory Board including appointing (upon previous consent of the Croatian National Bank) and recalling members of the Bank Management.
The Supervisory Board adopts decisions in meetings. Convening and holding meetings, the decision making procedure and authorisations are provided for in the Rules of Procedure of the Supervisory Board.
The members of the Supervisory Board of the Bank, in accordance with the performed assessment of their appropriateness in compliance with the internal acts, together as a whole meet all the prescribed requirements concerning diversity of knowledge and experience.
On 31 December 2020, all members of the Supervisory Board out of the total of 3 members were men. A procedure for selection of two members is under way.

Professional diversity is represented during evaluation and selection of members of the Management and the Supervisory Board.

Data on the composition and action of the Management and the Supervisory Board of the Bank is shown in the enclosed Annual Questionnaire.

The shareholders of the Bank exercise their rights at the General Assembly of the Bank.
The General Assembly decides on issues provided for under the legal regulations and the Bank Statute.
The General Assembly is convened by the Management or the Supervisory Board at least once in a year and when the interests of the Bank require so.

Rules on amendment of the Bank's Statute are contained in the Statute. A decision on amending is adopted by the General Assembly of the Bank in compliance with the law and the Statute, by votes representing at least three quarters of the equity represented at the General Assembly at the time the decision is made.
Amendments to the Statute are proposed by the Supervisory Board, the Management and shareholders of the Bank.

To protect interests of all investors, shareholders, clients, employees and others who have interest, the Bank has established high corporate management standards.

CORPORATE MANAGEMENT CODE

BASIC DATA ABOUT THE COMPANY:	**Slatinska banka d.d.**
CONTACT PERSON AND PHONE NUMBER:	**Nataša Vedrina Jarić, M: +385 (0) 99 3591136**
DATE OF COMPLETING THE QUESTIONNAIRE:	**_March 2021**

All questions contained in this questionnaire refer to the period of one fiscal year which the annual financial statements refer to.

Explanations should be given for questions contained in the questionnaire only if a question specifically requires so.

Replies in the questionnaire are valued under a certain protocol, which is stated at the beginning of each chapter.

COMMITMENT TO THE CORPORATE MANAGEMENT AND SOCIAL RESPONSIBILITY PRINCIPLES

Answers to this set of questions provide 20 % of the whole indicator concerning compliance of the company with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	1	Has the company accepted implementation of the Corporate Management Code of the Zagreb Stock Exchange?	YES	
	2	Does the company have its own Corporate Management Code?	YES	
	3	Have Corporate Management Code principles been adopted within the internal policies of the company?	YES	The Bank adopted internal acts of the Code of Corporate Conduct and Ethics and the Conflict of Interest Management Policy, which define in their broadest terms the modalities of the preferred, or prohibited conduct. Also, there are other internal acts that regulate in more detail the matter in question, which are compliant with the positive regulations.

	4	Does the company report compliance with the corporate management principles within its annual financial statements?	YES	

SHAREHOLDERS AND GENERAL ASSEMBLY

Answers to this set of questions provide 30 % of the whole indicator concerning compliance of the company with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	5	Is the company in a cross-shareholding relationship with another company or companies? (If yes, explain)	NO	
	6	Does each share of the company give one vote? (If not, explain)	YES	
	7	Are there cases when a shareholder is treated differently? (If yes, explain)	NO	
	8	Is the issuance of power of attorney for voting at the General Assembly simplified and free of strict formal requirements? (If not, explain)	YES	
	9	Has the company provided proxies, free of charge, to the shareholders who are not able to vote at the meeting for whatever reason, and those proxies are obliged to vote according to the shareholders' instructions? (If not, explain)	NO	The shareholders themselves ensure proxies. The Bank provides a power of attorney form.
	10	Has the Management, or the Management Board of the company, when convening the General Assembly, set a date by which the status in the register of shares will be determined, which will be relevant for exercising of the voting rights at the meeting, in that the date is before the General Assembly and may be up to six days at most before the General Assembly? (If not, explain)	YES	

	11	Are the agenda of the General Meeting and all relevant information and documents with explanations relating to the agenda posted on the website of the company and made available to shareholders in the premises of the company from the date of the first public announcement of the agenda? (If not, explain)	YES	
	12	Does the decision on dividend payment or advance of the dividend contain the date on which the person who is a shareholder becomes entitled to the dividend payment and the date or period when the dividend is paid? (If not, explain)	NO	The company has not paid dividend.
	13	Is the date of dividend payment or advance payment up to 30 days at most after the date of decision making? (If not, explain)	NO	The company has not paid dividend.
	14	Have there been instances when the payment of dividend or advance payment favoured some shareholders? (If yes, explain)	NO	The company has not paid dividend.
	15	Are the shareholders allowed to participate and vote at the General Assembly using devices of the modern communication technology? (If not, explain)	NO	No need for such participation and voting has been recorded.
	16	Have the conditions for participation in the General Assembly and exercising the voting right (irrespective of whether they are permitted pursuant to the law or the statute), such as reporting the participation in advance, certification of the power of attorney and similar been set? (If yes, explain)	YES	Participation in the work of the General Assembly is conditioned to prior application to the company, in line with the Companies Act, the Statute
	17	Has the Management of the company publicly announced the decisions of the General Assembly?	YES	
	18	Has the Management of the company published data on possible civil actions to challenge these decisions? (If not, explain)	NO	There were no such actions.

MANAGEMENT AND SUPERVISORY BODIES

LIST THE NAMES OF THE MANAGEMENT MEMBERS AND THEIR FUNCTIONS:	**Andrej Kopilaš - Management President Marin Prskalo - Management Member Oliver Klesinger - Management Member**
LIST THE NAMES OF THE SUPERVISORY BOARD AND THEIR FUNCTIONS:	**Dušan Banović - Supervisory Board President Srećko Vukić - Supervisory Board Member Domagoj Karačić - Supervisory Board Member**

Answers to this set of questions provide 20 % of the whole indicator concerning compliance of the company with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	19	Has the Supervisory Board, or the Management Board adopted a decision on the framework plan of its activities that includes a list of regular meetings and data that has to be regularly and timely put at the disposal of the members of the Supervisory Board? (If not, explain)	NO	The Supervisory Board holds meetings and makes decisions within its competence in accordance with the Statute and Rules of Procedure of the Supervisory Board
	20	Has the Supervisory Board, or Management Board adopted its internal rules of procedure?	YES	
	21	Are there independent members in the company's Supervisory Board, or Management Board? (If not, explain)	YES	
	22	Is there a long term succession plan in the company? (If not, explain)	YES	

	23	Is the compensation or remuneration received by the members of the Supervisory Board, or the Management Board determined entirely or partly by their contribution to the performance of the company? (If not, explain)	NO	The amount of the remuneration of the Supervisory Board is fixed and defined by the General Assembly. It is not determined by the contribution to the performance of the company.
	24	Is the remuneration to the members of the Supervisory Board, or Management Board defined by a decision of the General Assembly or by the Statute? (If not, explain)	YES	It is determined by a decision of the General Assembly.
	25	Is detailed data on all remunerations and other earnings from the company or its related entities of each individual member of the Management, or executive directors, including the structure of the remuneration, publicly announced (in the annual financial statement)? (If not, explain)	NO	Financial data on aggregate respective expenses of the company, which contains total data for the members of the Management, is visible in the annual report and public announcement.
	26	Is detailed data on all remunerations and other earnings from the company or persons related to the company of each individual member of the Supervisory Board, or Management Board of the company, including the structure of the remuneration, publicly announced (in the annual financial statement)? (If not, explain)	NO	Financial data on the total respective expenses of the company, which contains total data for the members of the Supervisory Board, is visible in the annual report and public announcement.
	27	Does every member of the Supervisory Board, or the Management Board inform the company about all the changes concerning his/her acquisition, dismissal or possibility for exercising the voting rights to shares immediately, and not later than three working days from the date of the transaction? (If not, explain)	YES	
	28	Are all transactions involving the members of the Supervisory Board, or Management Board or persons related to them, and the company or persons related to it, clearly stated in the reports of the company? (If not, explain)	YES	

	29	Are there contracts or agreements between members of the Supervisory Board, or Management Board and the company itself?	NO	
	30	Were they previously approved by the Supervisory Board, or Management Board? (If not, explain)		See answer under 29.
	31	Are important elements of all such contracts or agreements included in the annual report? (If not, explain)		See answer under 29.
	32	Has the Supervisory Board, or Management Board constituted an Appointment Commission?	NO	The Supervisory Board performs the jobs of the Board.
	33	Has the Supervisory Board, or Management Board constituted a Reward Commission?	NO	The Supervisory Board performs the jobs of the Board.
	34	Has the Supervisory Board, or Management Board constituted an Audit Commission (Audit Committee)?	YES	A Risk and Audit Committee, has been constituted as the committee of the Supervisory Board.
	35	Are most members of the Audit Committee from the ranks of the independent members of the Supervisory Board? (If not, explain)	YES	
	36	Has the Audit Committee monitored the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group which it belongs to, including the criteria for consolidation of financial statements of companies belonging to the group? (If not, explain)	YES	
	37	Has the Audit Committee evaluated the quality of the internal control and risk management system, with the purpose that the main risks which the Company is exposed to (including the risks related to compliance with regulations) are adequately identified and publicly disclosed, and that they are properly managed? (If not, explain)	YES	

	38	Has the Audit Committee worked on ensuring the effectiveness of the internal audit system, especially by preparing recommendations during the selection, appointment, reappointment and change of the Head of the Internal Audit Department and regarding the resources at their disposal, and assessment of the proceeding of the Management following the findings and recommendations of the internal audit? (If not, explain)	YES	Quarterly reports of the internal audit, which are presented to the Audit Committee, contain a part that relates to professional improvement and education of workers of the internal audit. Furthermore, the Audit Committee gives recommendations to the Supervisory Board for the selection, appointment, reappointment and change of the Head of the Internal Audit Department based on the implemented procedure of assessment of suitability (fit and proper). Any possible limitations related to the budget of implementation of the planned activities of functions of the Internal Audit, if any, are also included in quarterly reports on operation.
	39	If the Internal Audit Function does not exist in the company, has the Committee made assessment of the need for establishing such a function? (If not, explain)	NO	There is the Internal Audit Function in the Bank.
	40	Has the Audit Committee supervised the independence and objectivity of an external auditor, in particular with regard to the rotation of authorised auditors within the audit company and the fees paid by the Company for external audit services? (If not, explain)	YES	
	41	Has the Audit Committee monitored the nature and quantity of services other than audit, and the company receives them from the audit company or entities related to it? (If not, explain)	NO	There were no such services

	42	Has the Audit Committee prepared rules regarding the services which the external audit company and entities related to it may not render to the company, the services that may be rendered only upon prior consent of the Committee, and services that may be rendered without prior consent? (If not, explain)	NO	Rules related to non-audit services are defined with a legal framework and thus there is no need for defining additional rules by the Risk and Audit Board.
	43	Has the Audit Committee considered the efficiency of external audit and actions of senior management given the recommendations made by the external auditor? (If not, explain)	YES	The Internal Audit monitors continuously the status of resolution of recommendations made by the external auditor. The Internal Audit notifies the Risk and Audit Committee and the Supervisory Board about their movement and status of implementation of corrective measures, through quarterly reports.
	44	Is the documentation relevant for the work of the Supervisory Board, or the Management Board submitted on time to all members? (If not, explain)	YES	
	45	Are all adopted decisions with the voting results recorded in the minutes from the meetings of the Supervisory Board, or the Management Board? (If not, explain)	YES	
	46	Has the Supervisory Board, or Management Board evaluated their work in the past period including the validation of contributions and competence of each member, as well as the joint work of the committee, evaluation of the work of the committees established by them and achievements in relation to the set objectives of the company?	YES	Mostly, in the report on the work of the Supervisory Board for the previous year that is submitted to the General Assembly.
	47	Is detailed data on all earnings and remunerations which each member of the Management or executive director receives from the company publicly announced in the Company's annual report? (If not, explain)	NO	Financial data on aggregate respective expenses of the company, which contains total data for the members of the Management, is visible in the annual report and public announcement.

	48	Are all forms of remunerations to the members of the Management and the Supervisory Board, including options and other benefits for the Management, publicly announced as per detailed single items and persons in the annual report of the company? (If not, explain)	NO	Data on the members of the Management and key management in aggregate amounts is published in the Annual Report. Data on remuneration of members of the Supervisory Board is published within decisions of the General Assembly.
	49	Are all transactions involving the members of the Management or the executive directors and persons related to them, and the company or persons related to it, clearly stated in the reports of the company? (If not, explain)	YES	
	50	Does the report that the Supervisory, or Management Board submits to the General Assembly, in addition to the contents of the report defined by law, contain the evaluation of the total business performance of the company, operation of the Management of the company and a special review of its cooperation with the Management? (If not, explain)	YES	

AUDIT AND INTERNAL CONTROL MECHANISMS

Answers in this area provide 10% of the total indicator with regard to the compliance of the Bank with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	51	Does the company have an external auditor>	YES	
	52	Is the external auditor of the company related by the ownership or interest relation to the company?	NO	
	53	Does the external auditor of the company provide other services to the company by itself or through related persons?	NO	
	54	Has the company publicly disclosed the amounts of the fees paid to the external auditor for audit and other services rendered? (If not, explain)	NO	In its 2020 Annual Financial Report, the Bank presented costs of audit for 2020 within its service costs.

	55	Does the company have internal auditors in place? (If not, explain)	YES	
	56	Does the company have an internal control system in place? (If not, explain)	YES	

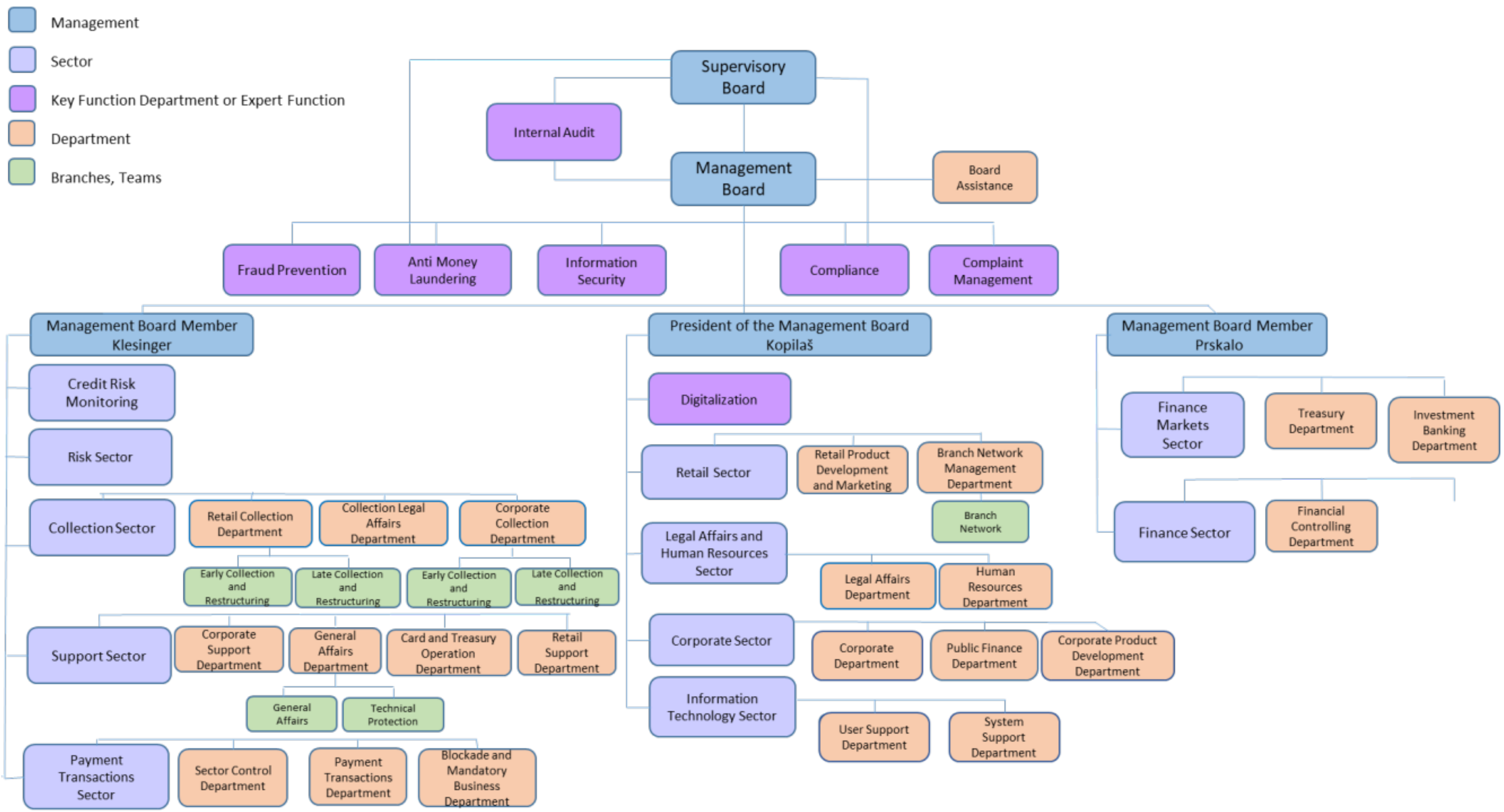
TRANSPARENCY AND PUBLICITY OF OPERATION

Answers in this chapter provide 20% of the total indicator with regard to the compliance of the company with the Corporate Management Code

	Question no.	Question	Answer YES/NO	Explanation
	57	Are the annual, semi-annual and quarterly reports available to shareholders?	YES	
	58	Has the company prepared a calendar of important events?	NO	
	59	Has the company established mechanisms to ensure that persons who posses or have access to privileged information are informed about the nature and importance of that information and limitations in this regard?	YES	
	60	Has the company established mechanisms to ensure control of the flow of privileged information and its possible misuse?	YES	
	61	Has anybody suffered negative consequences for indicating any shortcomings in the application of rules or ethical norms within the company to the competent authorities or bodies in the company or outside it? (If yes, explain)	NO	
	62	Did the Management of the company hold meetings with interested investors in the past year?	NO	The Bank has a stable shareholder structure and keeps continuous communication with majority investors. For that reason, there was not reason for special meetings with the shareholders, i.e. Investors in addition to the General Assembly meetings.

	63	Do all the members of the management and the Supervisory or Management Board agree that the statements stated in the answers to this Questionnaire are to the best of their knowledge truthful in their entirety?	YES	

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



Business network of Slatinska banka d.d.

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

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

RIJEKA BRANCH
Jelačićev trg 1, 51000 Rijeka
phone: 051/563-505

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

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

NAŠICE BRANCH
Trg Izidora Kršnjavog 3, 31500 Našice
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ĐAKOVO BRANCH
Stjepana Radića 9, 31400 Đakovo
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SLAVONSKI BROD BRANCH
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VIROVITICA BRANCH
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DARUVAR BRANCH
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POŽEGA BRANCH
Kamenita vrata 4, 34000 Požega
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ORAHOVICA BRANCH
Kralja Zvonimira 9, 33515 Orahovica
phone: 033/637-145

PITOMAČA BRANCH
Trg kralja Tomislava bb, 33405 Pitomača
phone: 033/637-165

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

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

RESPONSIBILITY OF THE MANAGEMENT BOARD FOR 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 2020, are prepared in accordance with the applicable Croatian Accounting Act (OG 78/15, 134/15. 120/16. 116/18 and 47/20) and International Financial Reporting Standards as determined by the European Commission and published in the Official Journal of the EU, to give a true and fair view of the financial position, the results of operations and cash flows of the Bank for that period. The Management Board is responsible for keeping the proper accounting records, which at any time enable the preparation of financial statements and their compliance with the Accounting Act and IFRSs.

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

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

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

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

The annual financial statements on pages 10 to 82, 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 92, 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 26 March 2021 and submitted to the Supervisory Board for approval, as confirmed by the signatures below.

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

SLATINSKA BANKA d.d. 1

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

Slatina, 26 March 2021

FACT | revizija

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SLATINSKA BANKA d.d., Slatina

The report on the audit of annual financial statements

OPINION

We have audited the annual financial statements of Slatinska banka d.d. Slatina, Vladimira Nazora 2 („the Bank“, which comprise the Statement of Comprehensive Income for the year ended 31 December 2020, the Statement of Financial Position as at 31 December 2020, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended, and the Notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, its financial performance and cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards (IFRS) established by the European Commission and published in the Official Journal of the EU.

BASIS FOR OPINION

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

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

EMPHASIS OF MATTER

The impact of the COVID-19 pandemic on the Bank's operations

We draw attention to Note VII to the financial statements describing the impact of the Covid-19 pandemic on the Bank's operations, as well as the systemic measures undertaken to prevent a negative impact on the financial position of clients, the Bank and the economy as a whole.

INDEPENDENT AUDITOR'S REPORT (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 designed our audit to assess the risks of material misstatement of the financial statements, which includes considering significant accounting estimates that involve assumptions and take into account uncertain events. We also performed procedures related to the circumvention of the internal control system by the Management, which poses a risk of error as a result of fraud with the greatest impact on the annual financial statements.

We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters. We have determined that the following matter was key audit matter and should be published in our Independent Auditor's report.

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 - *Loans and advances to customers*, the gross value is stated in the amount of HRK 935 million, the related impairment (provision for impairment) in the amount of HRK 130 million, and impairment loss recognized in profit or loss in the amount of HRK 10 million (as at 31 December 2019 *Loans and advances to customers* with a gross value of HRK 996 million, impairment of loans of HRK 144 million, and impairment loss of HRK 35 million). 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. 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 and review of placement groups; - Gaining an understanding of the functioning of the internal control system related to the process of assessing the required impairment of loans and advances to customers and related provisions for ECL, established by the Management Board; and verifying their effectiveness; - Review and assessment of the methodology for recognizing provisions for ECLs, including estimates of the probability of default (PD), loss given default (PD) and default exposure (EAD); - Evaluating the quality of historical financial information used , assessing the appropriateness of related collateral estimates, the appropriateness of the assumptions used, checking the circumstances and events related to financial assets, and used macroeconomic prospective information that causes the need for impairment due to ECL; - Review of the classification of loans into regular loans, loans with a significant increase in credit risk and loans that require a reduction, in accordance with IFRS 9, but also in accordance with the Decision on the classification of placements and off-balance sheet liabilities of credit institutions;

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

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 2020.	- Assessment of the adequacy of disclosures in relation to International Financial Reporting Standards For impairment determined on an individual basis we: - selected a sample of loans with the highest amount and the highest risk, as well as a randomly selected sample by individual characteristic groups of placements, - reviewed how the level of credit risk is determined, - 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, - assessed the appropriateness of the assumptions used to calculate the probability of default over the life of the instrument (PD) and the loss given default (LGD), - assessed the appropriateness of measuring the required impairment for ECL through the acceptability of assessing financial position and performance, estimating expected future cash flows, the time required to collect exposures, the appropriateness of valuing collateral and assessing the financial impact of using collateral to collect outstanding exposures, - assessed the adequacy of the classification of exposures and the calculation of the ECLs of individual exposures on the balance sheet date, as well as their compliance with the requirements of the CNB, - performed evidence-based testing of a selected sample of loans and related receivables to assess the correctness of the classification and valuation of loans.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

Key audit matter	How we addressed the key audit matter
Related disclosures in the annual financial statements See Notes 3.9. - Summary of accounting policies, Financial assets; 13. - Impairment; 19. - Loans and advances to customers and 37. - Credit risk, Financial risk management - to the financial statements.	The results of our tests were satisfactory, the audit evidence obtained was sufficient. We agree that the impairments carried out at the balance sheet date are appropriate.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

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

- the information included in other information is in accordance with the attached annual financial statements;
- the Management Report of the Bank for 2020 is prepared in accordance with Article 21 of the Accounting Act:
- the Implementation of Corporate Governance Code is prepared in accordance with Article 22, paragraphs 3 and 4; and includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

- 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 requirements

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

- The General Assembly of the Bank appointed us on 26 June 2020 to perform the audit of the annual financial statements for 2020. For the first time, we have been appointed the Bank's auditor for 2019. The audit of the financial statements for the year ended 31 December 2020 represents our second year of audit.
- Apart from the issues we have identified in our Independent Auditor's report as key audit matters within the subtitle Audit Report on the Annual Financial Statements, we have nothing to report on point (c) of Article 10 of Regulation (EU) No 1095/2010. 537/2014.
- Our statutory audit of the Bank's annual financial statements for 2020 is capable of detecting irregularities, including fraud, in accordance with Section 225, Responding to Non-Compliance with Laws and Regulations of the IESBA Code, which requires us to review whether our engagement is generally recognized to have a direct effect on the determination of significant amounts and disclosures in their annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in its annual financial statements but compliance with what might be crucial for Bank's operations and its ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on other legal requirements (continued)

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

Unless we encounter or become aware of non-compliance with any of the foregoing laws or regulations that is, in our judgement manifestly insignificant, in its content and impact, financial or otherwise, to the Bank, its stakeholders and the general public; we are obligated to inform the Bank and request that it investigates the case and takes appropriate measures to address the irregularities and to prevent them from recurring in the future. If the Bank does not correct the irregularities in the audited annual financial statements as of the date of the audited balance sheet that is cumulatively equal to or greater than the materiality of the financial statements as a whole, we are required to modify our opinion in the independent auditor's report.

- In the audit of the Bank's annual financial statements for the year ended 31 December 2020, we determined materiality for the annual financial statements as a whole in the amount of HRK 15,025 thousand, which represents approximately 1% of the Bank's total assets. We have selected the Bank's assets as the most appropriate benchmark for the Bank's operations.
- We confirm that our audit opinion on the financial statements is in accordance with the supplementary report to the Audit Board of the Bank issued on 26 March 2021 in accordance with Article 11 Regulation (EU) No 537/2014 of the European Parliament and of the Council.
- To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited by Article 5 (1) of Regulation (EU) No. 537/2014, and we did not provide other permitted non-audit services to the Bank in the period from 1 January to 31 December 2020, i.e. until the date of this report, as well as in the year preceding that period, and we have maintained our independence from the Bank.

REPORT BASED ON THE ACCOUNTING ACT

- Based on the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (Official Gazette 42/18 and 122/20; hereinafter “the Decision”), the Management Board prepared the forms shown on pages 83 to 92, under the headings Statement of financial position (Balance Sheet) as at 31 December 2020, Statement of profit or loss, Statement of cash flows and Statement of changes in equity of the Bank for the year then ended; together with information on compliance with the financial statements of the Bank. The Management Board is responsible for the preparation of these forms and information on compliance with the Bank's annual financial statements, which do not form an integral part of these annual financial statements but contain the information required by the Decision. The financial information in the forms is based on the audited annual financial statements of the Bank prepared in accordance with the legal requirements for accounting of banks in the Republic of Croatia are presented on pages 83 to 92 and adjusted to the requirements of the Decision.
- The partner engaged in the audit of the Bank's annual financial statements for the year ended 31 December 2020 resulting in this Independent Auditor's Report is Jeni Krstičević, Certified Auditor.

Zagreb, 26 March 2021

Daniela Šunjić, dipl. oec.
President of the Management Board and Certified Auditor

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

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

SLATINSKA BANKA d.d., Slatina
STATEMENT OF COMPREHENSIVE INCOME for the10 year ended 31 December 2020

POSITION	Note	2020	2019
		HRK '000	HRK '000
Interest income	4	55,259	60,779
Interest expenses	5	(6,159)	(8,823)
Net interest income		**49,100**	**51,956**
Fee and commission income	6	11,514	13,251
Fee and commission expenses	7	(3,736)	(4,204)
Net fee and commission income		**7,778**	**9,047**
Net gains (losses) on derecognition of financial assets and liabilities at fair value through general comprehensive income	8	48	11,361
Net gains (losses) on financial assets and liabilities at fair value through profit or loss		1,984	2,764
Net gains (losses) on non-marketable financial assets that are measured at fair value through profit or loss		(2,635)	0
Net income from exchange rate differences		(192)	(3)
Other operating income	9	3,009	10,823
Other business expenses	10	(990)	(473)
Net trading profit and other income		**58,102**	**85,475**
Administrative expenses	11	(39,971)	(38,415)
Contributions in cash to resolution committees and deposit insurance schemes	10	(2,879)	(2,891)
Depreciation	12	(4,450)	(4,294)
Operating expenses		**(47,300)**	**(45,600)**
Profit before impairment and other provisions		**10,802**	**39,876**
Provisions or cancellation of provisions		1,768	(1,856)
Impairment or impairment reversal of financial assets not measured at fair value through profit or loss		(10,281)	(34,231)
Impairment or impairment reversal of investments in subsidiaries and associates	20	0	952
Other impairment losses and provisions		0	(821)
Impairment and provisions expenses	13	**(8,513)**	**(35,956)**
Profit before tax		2,289	3,920
Income tax	14	(933)	(1,651)
Profit for the year		**1,356**	**2,269**

SLATINSKA BANKA d.d., Slatina
STATEMENT OF COMPREHENSIVE INCOME for the11 year ended 31 December 2020

POSITION	Note	2020	2019
		HRK '000	HRK '000
Profit for the year		**1,356**	**2,269**
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		(950)	44
Items that can be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income		1,034	(894)
Other comprehensive income		**84**	**(850)**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1,440**	**1,419**

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 2020

P O S I T I O N	Note	31 Dec 2020	31 Dec 2019
		HRK '000	HRK '000
ASSETS			
Cash and cash equivalents	15	299,756	203,594
Financial assets at fair value through profit or loss	16	1,664	4,163
Financial assets at fair value through OCI	17	267,373	278,682
Financial assets at amortized cost (debt securities)	18	697	3,971
Receivables from the Croatian National Bank	19	67,364	89,361
Loans and receivables from banks	19	17,061	16,360
Loans and advances to customers	19	805,039	851,414
Property, plant and equipment	21	23,348	25,389
Intangible assets	22	10,106	7,773
Deferred and current tax assets	23	1,599	1,752
Other assets	24	7,575	11,877
Total assets		**1,501,582**	**1,494,336**
LIABILITIES AND EQUITY			
LIABILITIES			
Current accounts and deposits of customers and banks	25	1,209,505	1,245,824
Liabilities for received loans	25	99,316	55,980
Lease liabilities - IFRS 16	26	2,325	3,140
Other financial liabilities		0	122
Provisions for liabilities and expenses	27	4,765	6,533
Current tax liability	28	202	105
Other liabilities	29	18,286	17,012
Total liabilities		**1,334,339**	**1,328,716**
EQUITY	30		
Share capital		91,897	91,897
Share premium		149	149
Fair value reserves		(548)	(706)
Other reserves		15,183	15,183
Reserves on own shares		(6,592)	(6,592)
Retained earnings		67,094	65,689
Total equity		**167,183**	**165,620**
Total liabilities and equity		**1,501,582**	**1,494,336**

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 2020

	Share capital	Own shares	Accumulated other comprehensive income (loss)	Capital gain	Reserves			Retained earnings	Profit/loss for the year	Total
					Legal reserves	Reserves for own shares	Other reserves			
	HRK '000	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*
Balance at 1 January 2019	**91,897**	**(6,592)**	**241**	**149**	**4,729**	**7,425**	**3,028**	**58,622**	**4,777**	**164,276**
Allocation of profit 2018	0	0	(22)	0	0	0	0	4,799	(4,777)	**0**
Other increase or decrease in equity instruments	0	0	(75)	0	0	0	0	0	0	**(75)**
Total comprehensive income for the current year	0	0	(849)	0	0	0	0	0	0	**(838)**
Profit for the current period	0	0	0	0	0	0	0	0	2,269	**2,269**
Balance at 31 December 2019	**91,897**	**(6,592)**	**(706)**	**149**	**4,729**	**7,425**	**3,028**	**63,422**	**2,269**	**165,620**
Allocation of profit 2019	0	0	(47)	0	0	0	0	2,316	(2,269)	**0**
Other increase or decrease in equity instruments	0	0	121	0	0	0	0	0	0	**121**
Total comprehensive income for the current year	0	0	84	0	0	0	0	0	0	**84**
Profit for the current period	0	0	0	0	0	0	0	0	1,356	**1,356**
Balance at 31 December 2020	**91,897**	**(6,592)**	**(548)**	**149**	**4,729**	**7,425***	**3,028**	**65,738**	**1,356**	**167,183**

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

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

SLATINSKA BANKA d.d., Slatina
STATEMENT OF CASH FLOWS for the year ended 31 December 2020
INDIRECT METHOD

POSITION	2020	2019
	HRK '000	HRK '000
Operating activities and adjustments		
Profit before tax	2,289	3,920
Changes in equity	1,561	(926)
Impairment losses and provisions	8,513	35,956
Depreciation	4,451	4,294
Net unrealized (gain) / loss on financial assets and liabilities at fair value through profit or loss	2,635	0
Changes in assets and liabilities from operating activities		
Financial assets at fair value through profit or loss	(136)	(4,163)
Financial assets at fair value through OCI	11,223	62,536
Financial assets at amortized cost	3,288	1,888
Receivables from the Croatian National Bank	21,778	3,815
Loans and receivables from banks	(886)	5,844
Loans and advances to customers	36,572	(105,479)
Other assets from operating activities	3,730	1,234
Increase/decrease in operating liabilities		
Current accounts and deposits of customers and banks	(36,319)	(38,607)
Deferred tax liability	0	105
Other liabilities	1,028	814
A) Net cash flows from operating activities	**59,727**	**(28,769)**
Investing activities		
Proceeds from sale / payments for purchase / tangible and intangible assets and leases - IFRS 16	(4,743)	2,647
Proceeds from sale / payments for purchase / investment in subsidiaries, joint ventures and associates	0	6,650
B) Net cash flows from investing activities	**(4,743)**	**9,297**
Financing activities		
Liabilities for received loans	43,336	(40,483)
Lease liabilities - IFRS 16	(693)	(972)
C) Net cash flows from financing activities	**42,643**	**(41,455)**
D) Net increase / decrease in cash and cash equivalents	**97,627**	**(60,927)**
Cash and cash equivalents at the beginning of the year	**203,594**	**264,521**
Cash and cash equivalents at the end of the year	**301,221**	**203,594**

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

I GENERAL INFORMATION

1.1. Legal framework

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

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

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

1.2. Governance and Management

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

Members of the Bank's Management Board are:

1. Andrej Kopilaš, Member of the Management Board (from 20 July 2017 to 10 April 2018); represents the Bank individually and independently by the decision of the Supervisory Board of 16 January 2018; President of the Management Board from 10 April 2018 for a term until 19 July 2024)
2. Marin Prskalo, Member of the Management Board (from 20 July 2017 for the term of office until 19 July 2024)
3. Oliver Klesinger, Member of the Management Board (from 14 November 2019 for the term of office until 19 July 2024)
4. Elvis Mališ - Member of the Management Board (from 10 April 2018 to 26 August 2019)

Members of the Supervisory Board are:

1. Dušan Banović - President of the Supervisory Board (member since 1 July 2018)
2. Srećko Vukić - Member of the Supervisory Board (since 1 July 2018)
3. Domagoj Karačić - Member of the Supervisory Board (since 26 August 2020)
4. Goran Kovač - Member of the Supervisory Board (until 3 May 2019)
5. Ružica Vađić - President of the Supervisory Board (until 22 September 2020)
6. Krunoslav Lisjak - Deputy President of the Supervisory Board (until 29 May 2020)

As at 31 December 2020, the Bank had 179 employees (31 December 2019, 176 employees).

II BASIS OF PREPARATION

2.1. Compliance statement and basis of preparation

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

The CNB's accounting regulations are based on International Financial Reporting Standards (IFRS), which include International Accounting Standards (IAS), their amendments and related interpretations, and International Financial Reporting Standards (IFRS), their amendments and related interpretations, which are established by the European Commission and published in the Official Journal of the European Union and which were in force on 31 December 2020.

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

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

2.2. Measurement basis

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

2.3. Uncertainty of estimates and impact of judgments

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

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

II BASIS OF PREPARATION (continued)

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

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

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

2.4. Functional and reporting currency

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

III SUMMARY OF ACCOUNTING POLICIES

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

3.1. Changes in accounting policies

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

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

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

- **Amendments to the Guidelines on the Conceptual Framework in IFRS Standards (EU Regulation 2019/2075),** published in March 2018; effective for annual periods beginning on or after 1 January 2020. The revised conceptual framework includes a new chapter on measurement; guidelines for reporting on financial results; improved definitions and guidelines - in particular, the definition of an obligation; and clarifications in important areas, such as the role of governance, prudence, and measurement uncertainty in financial reporting.

- **Amendments to IAS 1 and IAS 8: Definition of Materiality** (EU Regulation 2019/2104), published in October 2018 in order to clarify the definition of materiality and align with the definition used in the Framework and Standards. Furthermore, the explanations along with the definition itself have been improved. Finally, the amendments ensure consistency in the definition of materiality in all IFRSs.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Information is significant if it can reasonably be expected that its omission, misstatement or unclear presentation will affect the decisions made by the primary users of general purpose financial statements based on those financial statements, which provide financial information about a particular reporting entity.

- **Amendments to IFRS 9, IAS 39 and IFRS 7:** Reform of the Interest Rate Reference Value (EU Regulation 2020/34), published in September 2019 (published on 26 September 2019 and effective for annual periods starting on or after 1 January 2020). The changes resulted from the replacement of reference interest rates such as LIBOR and other interbank bid interest rates ("IBORs"). The amendments provide a temporary exemption from the application of certain hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under IFRS 9 and IAS 39 requires future hedged cash flows to be “highly probable”. If these cash flows depend on the IBOR, the exemption provided for in the amendments requires the entity to apply the assumption that the interest rate on which the cash flows are based will not change as a result of the reform. IAS 39 and IFRS 9 require an estimate of expected future events for the application of hedge accounting. Although the cash flows to which IBOR interest rates apply and the interest rates that replace it are currently expected to be largely equal, thus minimizing any inefficiencies, this may no longer be the case as the reform date approaches. According to the amendments, the entity may assume that the reference interest rate on which the cash flows of the hedged item, hedging instrument or hedged risk are based has not been affected by the IBOR reform. Due to the reform, the hedging could be found outside the range of 80-125%, which is mandatory for retroactive testing in accordance with IAS 39. IAS 39 has therefore been amended to allow an exemption from retroactive testing of effectiveness in such a way that hedging is not interrupted during the period of uncertainty caused by IBOR simply because retroactive inefficiency is outside this range. However, even then, other requirements for the application of hedge accounting should be met, including an assessment of expected events. For some hedges, the hedged item or hedged risk relates to a non-contractual component of the IBOR. In order to apply hedge accounting, IFRS 9 and IAS 39 require that the identified risk component can be determined separately and measured reliably. According to the amendments, the risk component should be able to be determined separately at the beginning of the hedge relationship, rather than continuously. In the context of macro hedging, where the entity often harmonizes the hedge relationship, the exemption applies from the moment the hedged item was originally established within that relationship. Any ineffectiveness of hedging will continue to be recognized in the income statement in accordance with IAS 39 and IFRS 9. The amendments set out the reasons for ceasing to apply the exemption, including the uncertainty arising from the reference interest rate reform, which is no longer applicable. The amendments require entities to provide additional information to investors about their hedging relationships directly affected by these uncertainties, including the nominal amount of hedging instruments to which the exemptions apply any significant assumptions or judgments made during the exemption and qualitative disclosures about how the entity is affected by the IBOR reform and how it manages the transition process.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **- Amendments to IFRS 3: Business Combinations (**EU Regulation 2020/551), issued in October 2018 and effective for acquisitions beginning on or after 1 January 2020. The definition of the term "business" has been changed and it represents an integrated set of activities and assets carried out and managed for the purpose of providing goods or services to customers, with the realization of investment income (e.g. dividends or interest) or other income from ordinary activities. Business consists of input values and processes that are applied to those input values and that can contribute to the creation of output values. The three elements of business are defined as follows:
  a) a) input value: any economic resource that generates output values or can contribute to the creation of output values when one or more processes are applied to it.
  b) b) process: any system, standard, protocol, convention or rule which, when applied to an input value or input values, creates or may contribute to the creation of output values.
  c) c) output value: the result of input values and processes applied to those input values that provide goods or services to customers, generate investment income (e.g. dividends or interest) or other income from ordinary activities.

- **Amendment to IFRS 16: Lease Concessions - related to COVID-19** (EU Regulation 2020/1434), issued in May 2020 to bring this standard into line with the exemption of modifications caused by the COVID-19 pandemic from the definition of modifications.

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

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

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

IFRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)
Amendments to IFRS 17 are effective, retroactively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments are aimed at assisting companies in implementing the standards. They are specifically designed to reduce costs by simplifying certain requirements of the standard, facilitating the explanation of financial results and facilitating the transition by delaying the application of the standard until 2023 and providing additional relief to reduce the effort required in the first application of IFRS 17. Amendments to IFRS 4 change the fixed expiry date of the temporary exemption from IFRS 4 Insurance Contracts for the Application of IFRS 9 Financial Instruments, and companies are required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

III SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

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

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

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

IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the Annual Improvements Cycle to IFRS 2018-2020 (Amendments)
The amendments shall apply for annual periods beginning on or after 1 January 2022, with earlier application permitted. The IFRS Committee has issued amendments to IFRSs of limited scope as follows:

- IFRS 3 Business Combinations (Amendments) includes an updated reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibits a company from reducing the cost of property, plant and equipment by amounts derived from the sale of items produced during the preparation of assets for their intended use. Instead, the Company will recognize such sales revenue and related expenses in the income statement.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specifies which costs the Company includes in determining the cost of performing a contract, to assess whether the contract is harmful.

Annual improvements 2018-2020 include minor amendments to IAS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and accompanying illustrative examples with IFRS 16 Leases.

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

IFRS 16 Leases - COVID-19 Lease Relief (Amendments)
The amendments apply retroactively for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted only in financial statements not yet authorized for issue on 28 May 2020. The IFRS Committee amended the standard to provide relief to lessees from the application of the Guidelines on Accounting for Lease Modifications of IFRS 16 regarding rental benefits resulting from the COVID-19 pandemic. The amendment provides a practical exemption for lessees by allowing them to treat any change in lease payments due to the impact of COVID-19 in the same way as they would record a change in IFRS 16; if the change is not a modification of the lease, but only if all of the following conditions are met:

- change in the lease payment results in a revised rental fee that is substantially the same or less than the rental fee immediately prior to the change.
- any reduction in rent payments affects only payments originally due on or before 30 June 2021
- there are no significant changes in other lease terms.

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

Interest rate equalization reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)
In August 2020, the IFRS Committee announced Phase 2 of the interest rate harmonization reform, amending IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to the reform of interbank offered rates (IBOR). The amendments provide for temporary reliefs related to the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near-risk-free interest rate (RFR). The amendments provide in particular practical facilitation in the accounting of changes in the basis for determining the contractual cash flows of financial assets and liabilities which require an adjustment of the effective interest rate, equivalent to the movement of the market interest rate.
Also, the amendments include relief from the termination of the hedge accounting relationship including temporary relief from the need to meet a separately identifiable requirement when a risk-free instrument is designated as a hedge component.

Furthermore, the amendments to IFRS 4 are designed to enable insurers that still apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Amendments to IFRS 7 Financial Instruments: Disclosures are also provided to enable users of financial statements to understand the effects of the interest rate equalization reform on the company's financial instruments and risk management strategy.
The amendments are applicable for annual periods beginning on or after 1 January 2021, with earlier application permitted. Although the application is retroactive, the company is not obliged to revise previous periods.

The Management Board is assessing the possible impact that these changes will have on the Bank's financial statements.

3.2. Interest income and expenses

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

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

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

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

3.5. Employee benefits

Costs of 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:

	2019	2020
Pension insurance contribution	20.0%	20.0%
Health insurance contribution	16.5%	16.5%
Contribution to the employment fund	0.0%	0.0%
Contribution to the occupational health fund	0.0%	0.0%

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 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 income statement.

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

3.7. Taxation

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

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.

Recognition and measurement of financial assets

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”).

III SUMMARY OF ACCOUNTING POLICIES (continued)

This analysis was conducted at the level of individual contracts or at the level of exposure groups where possible. Equity instruments will be measured at fair value through profit or loss or other comprehensive income, depending on their characteristics and intent to acquire.

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

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

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

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

Exposure is divided into the following homogeneous groups:

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

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

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

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

The following macroeconomic indicators are used in the calculation

- Gross domestic product
- Unemployment rate
- Inflation rate

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

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%

Derecognition and subsequent measurement of financial assets

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

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

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

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

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

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

Impairment loss on financial assets

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

III SUMMARY OF 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.

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.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Investments in equity securities

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

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

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

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

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

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

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

Loans to banks and customers

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

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

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

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

Total placements and contingent liabilities classified in 2020 increased from HRK 1,663,908 thousand to HRK 1,685,237 thousand, which consequently increased allowances for Phase 1 and Phase 2 exposures by HRK 1,402 thousand, while Value adjustments for losses on exposures and contingent liabilities in phase 3 decreased by HRK 15,062 thousand due to write-off of non-performing loans.

Exposure and impairment	31 Dec 2020	31 Dec 2019	Change 2020-2019
1. Total impairments for exposures and provisions for contingent liabilities	134,538	148,198	-13,660
1.1. Exposure impairments and provisions for contingent liabilities PHASE 3	121,371	136,433	-15,062
1.2. Impairments and provisions PHASE 2	1,781	1,452	329
1.3. Impairments and provisions PHASE 1	11,386	10,313	1,073
2. Total exposures and contingent liabilities	1,685,237	1,663,908	21,329
3. Relative ratio (%): total impairments and provisions / total exposures and contingent liabilities	7,98	8,91	-0,92

In 2020, the Bank significantly reduced its portfolio of NPLs (non-performing loans), both sectoral and total. The coverage of total placements in Phase 3 on 31 December 2020 is 71.48%, while on 31 December 2019 it was 70.11%. The share of NPLs on loan principal on 31 December 2020 is 14.05%, while on 31 December 2019 it was 15.84%. The share of NPLs by exposures classified as at 31 December 2020 is 10.08%, while at 31 December 2019 it was 11.70%.

3.10. Fair value of financial instruments

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

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.11. Property, plant and equipment

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

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

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

	2020		2019	
O P I S	%	years	%	years
Buildings	2.00 – 2.50	40-50	2.00 – 2.50	40-50
Computer equipment	25	4	25	4
Furniture	20	5	20	5
Personal vehicles	40	2.5	40	2.5
Other equipment	10 - 25	4-10	10 - 25	4-10

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

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

3.12. Intangible assets

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

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

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

O P I S	2020		2019	
	%	years	%	Years
Leasehold improvements	3.3 - 10	10-30	3.3 - 10	10-30
Software	10 - 25	4-10	10 - 25	4-10
Other intangible assets	20 - 50	2-5	20 - 50	2-5

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

3.13. Foreclosed tangible assets

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

3.14. Share capital and reserves

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

3.15. Commitments and contingencies

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

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

3.16. Cash flow statement

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.17. Operational segments

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

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

3.18. Legal environment

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

3.19. Significant estimates and judgements

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

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

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

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

III SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

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

3.20. Events after the reporting date

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

IV NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. Interest income

	2020	2019
Description	HRK '000	HRK '000
Companies	16,376	17,100
Natural persons and craftsmen	36,457	39,630
Credit institutions	35	156
Other	2,391	3,893
Total	**55,259**	**60,779**

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

	2020	2019
Description	HRK '000	HRK '000
Non-traded financial assets that are measured at fair value through profit or loss	85	61
Financial assets at fair value through other comprehensive income - debt securities	971	1,644
Financial assets - debt securities at amortized cost	166	262
Financial assets - loans and advances at amortized cost	54,037	58,800
Other assets	0	12
Total	**55,259**	**60,779**

5. Interest expenses

	2020	2019
Description	HRK '000	HRK '000
Companies	156	214
Natural persons and craftsmen	5,192	7,280
Credit institutions	164	1,094
Other	647	235
Total	**6,159**	**8,823**

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

	2020	2019
Description	HRK '000	HRK '000
Financial liabilities at amortized cost	5,852	8,587
Interest expenses on lease liabilities	131	180
Interest expenses on financial assets	176	56
Total	**6,159**	**8,823**

6. Fee and commission income

	2020	2019
Description	HRK '000	HRK '000
Companies (fee income)	3,271	4,286
Retail	6,586	7,804
Other (fee income)	1,657	1,161
Total	**11,514**	**13,251**

7. Fee and commission expense

	2020	2019
Description	HRK '000	HRK '000
Commission for FINA services	1,886	1,961
Foreign institutions	328	318
Domestic banks and clients	1,522	1,925
Total	**3,736**	**4,204**

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

	2020	2019
Description	HRK '000	HRK '000
Gain from assets measured at fair value through other comprehensive income	48	11.361
Total	**48**	**11.361**

9. Other operating income

	2020	2019
Description	HRK '000	HRK '000
Collected court and similar expenses	1	6
Sale of tangible assets	501	6,946
Deferred income	2,035	3,454
Other	472	417
Total	**3,009**	**10,823**

10. Other operating expenses

	2020	2019
Description	HRK '000	HRK '000
Cost of tangible asset sale	843	427
Other	147	46
Total	**990**	**473**

In 2020, in relation to the annual financial statements as at 31 December 2019, the following items were reclassified from other operating expenses:

Description	2020 HRK '000	2019 HRK '000
Cash contributions to resolution committees and deposit insurance schemes (reported individually)	2,879	2,891
Non-tax levies (included in Other item under Other administrative expenses)	166	218

11. Administrative expense

Description	2020 HRK '000	2019 HRK '000
Employee costs /i/	26,460	23,794
Compensation to the members of Supervisory Board	330	404
Other administrative expenses /ii/	13,181	14,217
Total	**39,971**	**38,415**

/i/ Employee costs are as follows

Description	2020 HRK '000	2019 HRK '000
Net salaries	14,977	13,295
Contributions from and on salaries	7,350	6,643
Tax and surtax	2,365	1,702
Other employee benefits	1,768	2,154
Total	**26,460**	**23,794**

Employee costs include settlement costs in the amount of HRK 735 thousand.

/ii/ Other administrative expenses are as follows:

Description	2020 HRK '000	2019 HRK '000
Cost of material	1,320	1,381
Cost of services	10,743	10,935
Entertainment, advertising and promotion	325	996
Other	793	904
Total	**13,181**	**14,217**

12. Depreciation

Description	2020 HRK '000	2019 HRK '000
Depreciation of leased assets (Note 21)	922	922
Depreciation of property, plant and equipment (Note 21)	2,411	2,332
Amortisation of intangible assets (Note 22)	1,117	1,040
Total	**4,450**	**4,294**

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

Description	2020 HRK '000	2019 HRK '000
Impairment of financial assets	**10,281**	**34,231**
- financial assets valued through other comprehensive income (note 17)	87	(288)
- financial assets – debt securities valued at amortised cost / held to maturity (note 18)	(147)	26
- financial assets valued at amortised cost / loans and advances (CNB, credit institutions, clients) and cash	10,357	34,505
- Cash (note 15)	261	(177)
- Loans and advances (note 19)	10,096	34,682
- Collected receivables- previously written off	(16)	(12)
Impairment of non-financial assets (notes 21 and 24)	***0***	***821***
Impairment of investments in subsidiaries (note 20)	**0**	**(952)**
Provisions or reversal of provisions	**(1,768)**	**1,856**
Provisions for litigation (note 27)	(1,444)	1,705
Other provisions (note 27)	(379)	379
Provisions for contingent liabilities (note 27)	55	(228)
Total	**8,513**	**35,956**

14. Income tax

Tax calculation for the given period is as follows:

Description	2020 HRK '000	2019 HRK '000
Accounting profit before tax	2,289	3,920
Items increasing tax base	5,618	5,394
Items decreasing tax base	(3,566)	(4,010)
Profit/loss after increase and decrease	4,341	5,304
Tax loss carried forward	0	(473)
Tax base	4,341	4,831
Income tax rate	18%	18%
Income tax liability	(781)	(870)
Deferred tax cost	(152)	(782)
Tax expense	(933)	(1,651)

Income tax is calculated in accordance with Croatian regulations. The tax rate on taxable profit is 18% (2019: 18%). As at 31 December 2020, the liability to pay income tax amounts to HRK 781 thousand (31 December 2019, the liability to pay income tax amounted to HRK 870 thousand).

Deferred tax assets based on the deferred income is HRK 1,599 thousand 9 (31 December 2019, HRK 1,752 thousand).

V NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and cash equivalents

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Giro account	164,853	100,925
Cash in hand		
- kunas	17,957	17,267
- foreign currencies	4,047	8,347
Money in foreign currency current accounts of foreign banks	610	16,639
Money in foreign currency current accounts of domestic banks	9,896	11,588
Foreign currency current account with the CNB	103,015	49,189
Other deposits with the CNB	7	7
Total	**300,385**	**203,962**
Impairment	(629)	(368)
Total	**299,756**	**203,594**

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

Balance as at January 1, 2019	(546)
Changes in credit risk (net) - Note 13	178
Balance as at 31 December 2019	(368)
Changes in credit risk (net) - Note 13	(261)
Balance as at 31 December 2020	(629)

16. Financial assets at fair value through profit or loss

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Deposit certificates	318	820
Bonds	1,346	3,343
Total	**1,664**	**4,163**

The carrying amount of non-trading financial assets that are measured at fair value through profit or loss as at 31 December 2020 amounts to HRK 1,664 thousand (as at 31 December 2019 HRK 4,163). During 2019, in the settlement procedure based on the Extraordinary Management Procedure Act in companies of systemic importance for the Republic of Croatia, receivables from debt securities valued at amortized cost (Note 18) of the Agrokor Group were converted into Fortenova group securities. The Bank estimates that the fair value of the financial asset as it is recognized in the books at the date of acquisition does not differ from the fair value at the balance sheet date.

17. Financial assets at fair value through other comprehensive income

D e s c r i p t i o n	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Investment in equity securities /i/	141	141
Investment in funds /i/	3,128	7,631
Investment in debt securities		
Bonds – Republic of Croatia	209,258	192,590
Bonds – EU Member States	7,654	54,086
Treasury bills of the Republic of Croatia	45,173	21,994
Company bonds	2,019	2,240
Total	**267,373**	**278,682**
Associated provisions for expected credit losses for debt securities (recognized in other comprehensive income)	(601)	(514)

/i/ Equity instruments

The carrying amount of equity instruments whose fair value is measured through other comprehensive income as at 31 December 2020 is HRK 3,269 thousand (31 December 2019 HRK 7,772 thousand).
During 2020, the payment of shares in the investment fund amounted to HRK 5.4 million and was caused by strategic business decisions of the investment fund. In 2020, the realized loss from equity securities of financial assets at fair value through other comprehensive income amounts to HRK 950 thousand and is stated in other comprehensive income until the decision on the transfer of loss to retained earnings is made.
During 2019, the sale of shares in the investment fund amounted to HRK 8.6 million and was caused by strategic business decisions. In 2019, the realized gain on financial assets at fair value through other comprehensive income, net of tax, amounts to HRK 47 thousand and is stated in other comprehensive income until the decision on the transfer of profit to retained earnings is made.
The value of the funds is determined on the basis of the NAV (semi-annually for an open-ended alternative venture capital investment fund with a private offering).

/ii/ Debt instruments

Debt securities as at 31 December 2020 amount to HRK 264,106 thousand (31 December 2019 HRK 370,910 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 company bonds. Bonds are listed on the stock exchange, treasury bills are not listed. Value adjustments for financial assets without an increase in credit risk after initial recognition (phase 1):

Balance as at January 1, 2019	(803)
Changes in credit risk (net) - Note 13	289
Balance as at 31 December 2019	(514)
Changes in credit risk (net) - Note 13	(87)
Balance as at 31 December 2020	(601)

18. Debt securities valued at amortised cost

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Company bills of exchange	2,151	5,572
Value adjustment	(1,454)	(1,601)
Total	**697**	**3,971**

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

- *Financial assets at amortised cost – debt securities in phases at 31 December 2020*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Company bills of exchange	703	0	1,448	2,151
Total	**703**	**0**	**1,448**	**2,151**

Impairment	Phase 1	Phase 2	Phase 3	Total
Company bills of exchange	(5)	0	(1,449)	(1,454)
Total	**(5)**	**0**	**(1,449)**	**(1,454)**

- *Financial assets at amortised cost – debt securities in phases at 31 December 2019*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Company bills of exchange	3,991	0	1,581	5,572
Total	**3,991**	**0**	**1,581**	**5,572**

Impairment	Phase 1	Phase 2	Phase 3	Total
Company bills of exchange	(20)	0	(1,581)	(1,601)
Total	**(20)**	**0**	**(1,581)**	**(1,601)**

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

18. Debt securities valued at amortised cost (continued)

Description	2020 HRK '000	2019 HRK '000
Balance at 1 January	(1,601)	(14,118)
Net value adjustment - Phase 1	15	(8)
Net value adjustment - Phase 2	0	0
Net value adjustment - Phase 3	132	12,527
Balance at 31 December	(1,454)	(1,601)

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

Value adjustment	Phase 1	Phase 2	Phase 3	Total
Balance at 1 January 2019	(9)	(0)	(14,109)	(14,118)
Net changes in credit risk – note 13	(11)	0	(15)	(26)
Write off	0	0	12,543	12,543
Balance at 31 December 2019	(20)	(0)	(1,581)	(1,601)
Net changes in credit risk – note 13	15	0	132	147
Balance at 31 December 2020	(5)	(0)	(1,449)	(1,454)

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 2020 HRK '000	31 Dec 2019 HRK '000
Receivables from Croatian National Bank /i/	67,364	89,361
Placements with credit institutions /ii/	17,061	16,360
Loans and advances to clients /iii/	805,039	851,414
Total	**889,464**	**957,135**

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

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Reserve requirement	67,519	89,567
Value adjustment	(155)	(206)
Total	**67,364**	**89,361**

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

The obligation to allocate required reserves is prescribed by the CNB. It is allocated in the form of deposits with the CNB and maintained through the balances of other liquid receivables. The reserve requirement rate as at 31 December 2020 was 9% (2019: 12%) of short-term and long-term deposits and borrowings.

As at 31 December 2020, the percentage of allocation of the kuna part of the reserve requirement with the CNB was 70% (2019: 70%), while the remaining 30% (2019: 30%) is maintained in the form of other liquid receivables. This also includes the foreign currency portion (75%) of the reserve requirement, which needs to be kept in HRK (2019: 75%) and forms an integral part of the reserve requirement in HRK.

During 2020, 100% of the foreign currency portion of the reserve requirement is held in the form of other liquid receivables (2019: 100%).

The reserve requirement is not interest-bearing in 2020 (it was not interest-bearing in 2019 either).

/ii/ Placements with credit institutions were as follows

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Short-term deposits with domestic banks	916	2,177
Short-term deposits with foreign banks	6,139	6,657
Short-term loans to domestic banks	10,001	7,444
Short-term receivables in settlement	0	1
Receivables based on card business	45	102
Other	35	36
Total	**17,136**	**16,417**
Value adjustment	(75)	(57)
Total	**17,061**	**16,360**

/iii/ Loans and advances to clients are as follows

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Companies	327,460	366,959
Natural persons and craftsmen	575,929	587,469
Other	31,923	41,144
Impairment of loans	(130,273)	(144,157)
Total	**805,039**	**851,414**

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 2020 HRK '000	31 Dec 2019 HRK '000
Manufacturing	76,539	73,085
Trade	67,508	83,388
Tourism	34,826	38,994
Agriculture	42,739	62,745
Construction	24,601	30,345
Services	81,247	78,401
Retail	575,929	587,469
Other	31,923	41,144
Total	**935,312**	**995,571**
Impairment and provision for losses on loans	(130,273)	(144,157)
Total	**805,039**	**851,414**

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

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

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

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 2019*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Central bank	89,567	0	0	89,567
Credit institutions	16,381	0	36	16,417
Trading companies	248,009	9,475	109,475	366,959
Retail	501,022	4,365	82,082	587,469
Other	39,847	295	1,001	41,143
Total	894,826	14,135	192,594	1,101,555

Impairment	Phase 1	Phase 2	Phase 3	Total
Central bank	(206)	0	0	(206)
Credit institutions	(21)	0	(36)	(57)
Trading companies	(1,249)	(459)	(73,492)	(75,200)
Retail	(6,634)	(937)	(60,835)	(68,406)
Other	(134)	(44)	(373)	(551)
Total	(8,244)	(1,440)	(134,736)	(144,420)

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

Impairment	Phase 1	Phase 2	Phase 3	Total
Balance as at January 1, 2019	(9,085)	(1,573)	(113,208)	(123,866)
Changes in credit risk (net) - Note 13	841	133	(35,656)	(34,682)
Deferred income transfer	0	0	1,077	1,077
Exchange rate differences	0	0	(198)	(198)
Write-offs	0	0	13,249	13,249
Balance as at 31 December 2019	(8,244)	(1,440)	(134,736)	(144,420)
Changes in credit risk (net) - Note 13	(640)	(324)	(9,132)	(10,096)
Deferred income transfer	0	0	0	0
Exchange rate differences	0	0	(367)	(367)
Write-offs	0	0	24,381	24,381
Balance as at 31 December 2020	(8,885)	(1,765)	(119,854)	(130,503)

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

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

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Balance 1 January	(144,420)	(123,866)
Net value adjustment - Phase 1	(640)	841
Net value adjustment - Phase 2	(324)	133
Net value adjustment - Phase 3	14,881	(21,528)
Balance 31 December	(130,503)	(144,420)

20. Investments in subsidiaries and associates

In 2019, the bank sold a 100% stake in the company. Investment in a subsidiary in the previous period is stated using the investment cost method, less the carrying amount of these assets - investments to its recoverable amount. Changes to the value adjustment are shown as follows:

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Balance 1 January	0	(3,802)
Net impairment (note 13)	0	952
Write off	0	2,850
Balance 31 December	0	0

21. Tangible assets

Description	Land	Buildings	Leased buildings – IFRS 16	Equipment	Furniture and transport assets	Leased furniture and transport assets	Tangible assets under construction	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value								
Balance at 1 January 2019	**960**	**35,723**	**0**	**19,003**	**7,546**	**0**	**241**	**63,473**
Effects of the application of IFRS 16 on 1 January 2019	0	0	3,318	0	0	604	0	**3,922**
Transfer of assets in use from intangible assets	0	0	80	0	0	280	0	**360**
Direct increases	0	0		0	0		754	**754**
Transfer from assets under construction	0	0	0	391	192	0	(583)	**0**
Expenditure and sales	(25)	(533)	(80)	(1,940)	(509)	0	0	**(3,087)**
Balance at 31 December 2019	**935**	**35,190**	**3,318**	**17,454**	**7,229**	**884**	**412**	**65,422**
Direct increases	0	0		0	0		1,437	**1,437**
Transfer from assets under construction	0	0	0	1,076	58	0	(1,134)	**0**
Expenditure and sales	(7)	(301)	0	(362)	(723)	0	0	**(1,392)**
Balance at 31 December 2020	**928**	**34,889**	**3,318**	**18,168**	**6,564**	**884**	**715**	**65,466**
Value adjustment								
Balance at 1 January 2019	**0**	**16,312**	**0**	**16,024**	**6,991**	**0**	**0**	**39,327**
Depreciation for 2019	0	798	700	1,325	208	223	0	**3,254**
Transfer from intangible assets	0	0	80	0	0	77	0	**157**
Expenditure and sales	0	(175)	(80)	(1,941)	(509)	0	0	**(2,705)**
Balance at 31 December 2019	**0**	**16,935**	**700**	**15,408**	**6,690**	**300**	**0**	**40,033**
Depreciation for 2020	0	788	699	1,392	231	222	0	**3,333**
Expenditure and sales	0	(170)	0	(355)	(722)	0	0	**(1,247)**
Balance at 31 December 2020	**0**	**17,553**	**1,399**	**16,445**	**6,199**	**522**	**0**	**42,119**
Net carrying value								
Balance at 1 January 2019	**960**	**19,411**	**0**	**2,979**	**555**	**0**	**241**	**24,146**
Balance at 31 December 2019	**935**	**18,255**	**2,618**	**2,045**	**538**	**585**	**412**	**25,389**
Balance at 31 December 2020	**928**	**17,336**	**1,919**	**1,722**	**365**	**362**	**715**	**23,348**

As at 31 December 2020, the Bank had no pledged assets with other legal entities. Leased property, plant and equipment also include leased property in accordance with IFRS 16.

22. Intangible assets

Description	Software	Leasehold investment	Intangible assets under construction	Total intangible assets
	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value				
Balance at 1 January 2019	**17,687**	**1,947**	**864**	**20,498**
Direct increases	0	0	2,011	**2,011**
Transfer from assets under construction	540	0	(540)	**0**
Transfer of assets in use to tangible assets	0	(361)	0	**(361)**
Balance at 31 December 2019	**18,227**	**1,586**	**2,335**	**22,148**
Direct increases	0	0	3,451	**3,451**
Transfer from assets under construction	853	0	(853)	**0**
Balance at 31 December 2020	**19,080**	**1,586**	**4,933**	**25,599**
Value adjustment				
Balance at 1 January 2019	**11,967**	**1,526**	**0**	**13,493**
Depreciation for 2019	995	44	0	**1,040**
Transfer of depreciation of assets in use on tangible assets	0	(157)	0	**(157)**
Balance at 31 December 2019	**12,962**	**1,413**	**0**	**14,375**
Depreciation for 2020	1,073	44	0	**1,117**
Balance at 31 December 2020	**14,036**	**1,457**	**0**	**15,493**
Net carrying value				
Balance at 1 January 2019	**5,720**	**421**	**864**	**7,005**
Balance at 31 December 2019	**5,264**	**173**	**2,335**	**7,773**
Balance at 31 December 2020	**5,044**	**129**	**4,933**	**10,106**

Increases in intangible assets in 2020 include HRK 486 thousand of employee costs arising directly from the training of acquired intangible assets for their intended use (relating to a net salary of HRK 292 thousand, contributions from salary of HRK 84 thousand, taxes of HRK 44 thousand and contributions on salary of HRK 66 thousand).

23. Deferred and current tax assets

Description	31 Dec 2020	31 Dec 2019
	HRK '000	HRK '000
Deferred tax assets		
Deferred tax assets based on fees and other	1,599	1,752
Total	**1,599**	**1,752**

As at 31 December 2020, deferred tax assets based on fees and other future income amounted to HRK 1,599 thousand (2019: HRK 1,752 thousand).

24. Other assets

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Paid advances and deferred income	717	857
Foreclosed assets /i/	6,734	10,876
Other	124	144
Total	**7,575**	**11,877**

/i/ Foreclosed assets are presented as follows

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Land	1,660	2,330
Buildings	5,074	8,546
Total	**6,734**	**10,876**

Changes on foreclosed assets are as follows:

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Balance 1 January	10,876	20,649
Increase		
- Property Tax and other	0	223
- new assets	0	5,644
Decrease		
- sale	(4,141)	(14,819)
- impairment – note 13	0	(821)
Balance 31 December	6,734	10,876

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

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Demand deposits /i/	590,161	523,589
Fixed-term deposits /ii/	619,344	722,235
Liabilities for loans received	99,316	55,980
Total	**1,308,821**	**1,301,804**

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

/i/ Demand deposits are as followed

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Demand deposits - retail		
- Kuna	194,194	157,382
- foreign currency	249,625	223,477
Total retail	***443,819***	***380,859***
Demand deposits - companies		
- Kuna	84,956	82,494
- foreign currency	7,852	8,326
Total companies	***92,808***	***90,820***
Demand deposits – financial institutions		
- Kuna	204	222
- foreign currency	434	0
Total financial institutions	***638***	***222***
Demand deposits – state and other institutions		
- Kuna	43,094	42,339
- foreign currency	71	47
Total state and other institutions	***43,165***	***42,386***
Limited deposits		
- Kuna	1,486	2,260
- foreign currency	609	
Total limited deposits	***2,095***	***2,260***
Demand deposits – foreign persons		
- Kuna	30	16
Deposits of foreign companies	1	0
Retail deposits	29	16
- foreign currency	7,606	7,026
Deposits of foreign companies	524	0
Retail deposits	7,082	7,026
Total foreign persons	***7,636***	***7,042***
Grand total	**590,161**	**523,589**

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

/i/ Fixed term deposits are as follows:

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Demand deposits - retail		
- Kuna	200,296	218,361
- foreign currency	387,198	465,706
Total retail	**587,494**	**684,067**
Demand deposits - companies		
- Kuna	17,924	21,970
- foreign currency	2,070	2,080
Total companies	**19,995**	**24,050**
Deposit financial institutions		
- Kuna	0	6,125
Total financial institutions	**0**	**6,125**
Deposit state and other institutions		
- Kuna	2,336	4,657
- foreign currency	80	79
Total state and other institutions	**2,416**	**4,736**
- Kune		
Deposits of foreign credit institutions	4,281	0
Deposits of foreign companies	40	20
- foreign currency		
Retail deposits	5,020	3,141
Deposits of foreign companies	98	97
Total foreign persons	**9,439**	**3,258**
Grand total	**619,344**	**722,236**

/iii/ Liabilities for loans received are as follows:

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Liabilities to CBRD /a/	24,236	30,328
Liabilities to CNB /b/	75,080	25,652
Total	**99,316**	**55,980**

/a/ As at 31 December 2020, liabilities to CBRD amounted to HRK 26,236 thousand (31 December 2019: HRK 30,328 thousand). These sources are intended for granting loans to legal entities and individuals in accordance with CBRD's programs. Depending on the purpose of the loan, interest rates ranged from 0% to 5% (in 2019 from 0% to 5%).

/b/ As at 31 December 2020, liabilities to the CNB amount to HRK 75,080 thousand (31 December 2019: HRK 30,328 thousand) and relate to structural operations of the CNB with an interest rate of 0.25% (2019: 1.20%) and treasury bills of the Ministry of Finance and bonds of the Republic of Croatia in the total nominal amount of HRK 85,2 million as an insurance instrument.

26. Lease liabilities – IFRS 16

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Lease liabilities	2,325	3,140
Total	**2,325**	**3,140**

27. Provisions for liabilities and expenses

	Legal and tax proceedings in progress and other provisions	Provisions for commitments and guarantees	Total
Balance as at January 1, 2019	**3,154**	**1,523**	**4,677**
Net debit in the income statement - Note 13	2,084	(228)	1,856
Balance as at 31 December 2019	**5,238**	**1,295**	**6,533**
Net debit in the income statement - Note 13	(1,823)	55	(1,768)
Balance as at 31 December 2020	**3,415**	**1,350**	**4,765**

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

Provisions for commitments and financial guarantees

Impairment	Phase 1	Phase 2	Phase 3	Total
Balance at 1 January 2019	1,357	60	106	1,523
Net changes in credit risk – note 13	(191)	(48)	11	(228)
Balance at 31 December 2019	1,166	12	117	1,295
Net changes in credit risk – note 13	100	4	(49)	55
Balance at 31 December 2020	1,266	16	68	1,350

28. Current tax liability

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Current tax liability	202	105
Total	**202**	**105**

29. Other liabilities

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Liabilities for loan overpayments	5,067	5,461
Accounts payable	2,014	1,764
Liabilities to employees	2,910	1,921
Liabilities for fees to members of the Supervisory Board	23	31
Deferred interest income and accrued expenses	1,538	3,948
Taxes and contributions from income	-	17
Value added tax liabilities	6	12
Other liabilities	6,728	3,858
Total	**18,286**	**17,012**

30. Capital

As at 31 December 2020, 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 2020, the ten largest Bank's shareholders (data downloaded from www.skdd.hr) are presented as follows:

No.	31 Dec 2020 Balance	Share %		31 Dec 2020 Balance	Share %
PRIVREDNA BANKA ZAGREB D.D./MKBEGYENSULY NYILTVEGU BEFEKTETESI ALAP - Custody account	84,758	9.22	ADDIKO BANK D.D./SZAIF D.D. - Custody account	220,552	24.00
ZAGREBAČKA BANKA D.D./BETA MAGANTOKEALAP- Custody account	76,100	8.28	SOKAČIĆ DRAGUTIN	73,781	8.03
SOKAČIĆ DRAGUTIN	73,781	8.03	SB-S D.D. (1/1)	71,374	7.77
SB-S D.D. (1/1)	71,374	7.77	BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU	60,000	6.53
BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU	60,000	6.53	CERP/REPUBLIKA HRVATSKA	48,094	5.23
MEŠTROVIĆ IVAN	51,036	5.55	MIKULIĆ EMIL	36,554	3.98
CERP/REPUBLIKA HRVATSKA	48,094	5.23	BERIŠIĆ LJUBICA	36,432	3.96
MIKULIĆ EMIL	36,554	3.98	GALIĆ JOSIP	29,962	3.26
BERIŠIĆ LJUBICA	36,432	3.96	MRKOCI MILIVOJ	29,960	3.26
GALIĆ JOSIP	29,962	3.26	FINE SA CREDOS D.D., CONSULTING FINANC. KOMPANIJA	29,073	3.16
OTHERS	350,881	38.18	OTHERS	283,190	30.82
TOTAL 1.091 SHAREHOLDERS	918,972	100.00	TOTAL 1.120 SHAREHOLDERS	918,972	100.00

31. Earnings per share

Description	31 Dec 2020	31 Dec 2019
Profit for the year (in HRK '000)	1,356	2,269
Number of shares	918,972	918,972
Earning per share	**HRK 1.48**	**HRK 2.47**
Profit for the year (in HRK '000)	1,356	2,269
Number of shares after deduction for ordinary treasury shares	847,598	847,598
Basic and diluted earnings per share (in HRK per share)	1.60	2.68

32. Contingencies and commitments

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Guarantees	32,092	13,254
Revolving loans	4,731	4,724
Indicative margin loans	0	11,285
Revolving loans and financing commitments	83,209	77,745
Total	**120,032**	**107,008**
Provisions for contingent liabilities	(1,350)	(1,295)
Grand total	**118,682**	**105,713**

Contingent liabilities as at 31 December 2020

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

Contingent liabilities as at 31 December 2019

	Phase 1	Phase 2	Phase 3	Total
Guarantees	13,214	40	0	13,254
Revolving loans	4,594	12	118	4,724
Indicative margin loans	11,285	0	0	11,285
Revolving loans and financing commitments	77,335	93	317	77,745
OFF BALANCE SHEET LIABILITIES	106,428	145	435	107,008
Total provision for off-balance sheet liabilities	1,166	12	117	1,295

33. Managed funds for and on behalf of third parties

Custody services

	31 Dec 2020	31 Dec 2019
Description	HRK '000	HRK '000
Total sources	11,204	11,119
Less: assets	(10,266)	(10,221)
Unspent funds	**938**	**898**

The Bank manages funds for and on behalf of third parties. These assets are 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.

Assets under custody

	31 Dec 2020	31 Dec 2019
Description	HRK '000	HRK '000
Assets under custody	15,305	62,308
Unspent funds	30	1,255

34. Leases

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

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

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

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

Right-of-use assets

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

34. Leases (continued)

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

The bank leases its branches, business premises and vehicles.

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

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

Description	Buildings	Transport	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000
Purchase value			
Effects of the application of IFRS 16 on 1 January 2019	3,318	604	**3,922**
Prepaid lease payments (transfer of assets in use from intangible assets)	80	281	**361**
Disposal and sales	-80	0	**-80**
Balance at 31 December 2019	**3,318**	**884**	**4,202**
Increases	0	0	**0**
Disposal and sales	0	0	**0**
Balance at 31 December 2020	**3,318**	**884**	**4,202**
Value adjustment			
Depreciation for 2019	700	222	**922**
Transfer of depreciation for advance payments of rent (transfer from intangible assets)	80	76	**156**
Disposal and sales	-80	0	**-80**
Balance at 31 December 2019	**700**	**298**	**998**
Depreciation for 2020	699	224	**923**
Balance at 31 December 2020	**1,399**	**522**	**1,921**
Net carrying value			
Balance at 31 December 2019	**2,618**	**586**	**3,204**
Balance at 31 December 2020	**1,919**	**362**	**2,281**

34. 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 2020	31 Dec 2019
	HRK '000	HRK '000
Maturity analysis - contractual undiscounted cash flows		
Up to one year	1,433	975
Between one and two years	790	975
Between two and three years	217	657
Between three and four years	156	215
Between four and five years	156	155
Over five years	427	578
Total	3,179	3,555
Discounting effect	854	415
Total discounted lease liabilities at 31 December	2,325	3,140

Following are the expenses associated with operating leases

	2020	2019
	HRK '000	HRK
Depreciation of leased property		
Building	699	700
Transport	223	222
Depreciation of leased property	922	922
Lease expenses		
Interest expenses on lease liability	131	180
Expenses related to short-term leases	182	83
Costs related to low-value leases, excluding short-term low-value leases	39	40
Exchange rate differences	28	11
Cost of tax on long-term operating lease	187	216
COVID-19 Relief	(128)	
Lease liability expenses	439	530

34. Leases (continued)

Total cash flows for leases are as follows:

Cash flow	2020	2019
	HRK '000	HRK '000
Cash payment for part of the lease liability relating to principal	715	793
Cash payment for part of the lease liability relating to interest	131	180
Tax-related payments	188	216
Short-term lease payments, lease payments of low value assets	206	123
Total lease payments	1,240	1,312

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

Persons in a special relationship with a credit institution are:

1) shareholders of the Bank holding 5 or more per cent of the Bank's voting shares in the General Assembly of the credit institution, including funds holding shares in the credit institution,
2) members of the Management and the Supervisory Board and procurators of the Bank,
3) persons responsible for the control function, persons working with legal entities, persons working with retail clients, persons responsible for the operation of the treasury, authorized person for the prevention of money laundering,
4) a legal entity in which the credit institution has a participating share,
5) a legal entity in which a member of the Management Board, a member of the Supervisory Board or a procurator of a credit institution has a qualifying holding,
6) a legal entity in which a member of the Management Board, a member of the Supervisory Board or a procurator of a credit institution are members of senior management or are members of the Management Board, Supervisory Board, Management Board or executive directors.
7) a legal person whose member of the Management Board, Supervisory Board, board of directors or executive director or procurator is at the same time a member of the Management Board or a member of the Supervisory Board or procurator of a credit institution,
8) a legal entity whose member of the Management Board holds 10% or more of the Bank's voting shares in the General Assembly,
9) a 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
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.

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

Members of the close family of the related parties are:

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

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

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

	31 Dec 2020	31 Dec 2019
Description	HRK '000	HRK '000
Loans and advances to customers, securities		
Shareholders holding 5 or more percent of the voting shares	2	2
Management	14	22
Supervisory Board	9	5
Others	9,058	24,585
Total loans and advances to customers	**9,083**	**24,614**
Contingent liabilities		
Shareholders holding 5 or more percent of the voting shares	0	0
Management	34	29
Others	604	2,821
Total contingent liabilities	**638**	**2,850**

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

Description	31 Dec 2020 HRK '000	31 Dec 2019 HRK '000
Demand deposits		
Shareholders holding 5 or more percent of the voting shares	4,567	12,726
Others	13,125	13,271
Management	619	374
Supervisory Board and related persons	24	115
Total demand deposits	**18,335**	**26,486**
Fixed-term deposits		
Others	495	5,925
Turbina d.o.o. Slatina	0	0
Management	402	250
Supervisory Board and related persons	0	79
Total fixed-term deposits	**897**	**6,254**
Other liabilities		
Shareholders holding 5 or more percent of the voting shares	0	0
Others	7	9
Turbina d.o.o. Slatina	0	0
Management	0	193
Supervisory Board and related persons	23	31
Total Other liabilities	**30**	**233**

Description	2020 HRK '000	2019 HRK '000
Income		
Shareholders holding 5 or more percent of the voting shares	41	25
Supervisory Board and related persons	74	99
Management	116	85
Others	665	1,504
Turbina d.o.o. Slatina	0	7
Total income	**896**	**1,720**
Expenses		
Shareholders holding 5 or more percent of the voting shares	0	0
Management	2	0
Others	113	21
Turbina d.o.o. Slatina	0	2
Supervisory Board and related persons	330	405
Total expenses	**445**	**428**

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

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

Remuneration of the Management Board is presented as follows:

Description	2020 HRK '000	2019 HRK '000
Net salaries	1,625	1,432
Taxes and contributions	1,155	986
Total	**2,780**	**2,418**

Remuneration to the Management Board expressed in gross I amount. In 2019, severance pay receipts in the total amount of HRK 331 thousand (gross) are included in the Management Board's remuneration.

36. 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 2020		
ASSETS	**Level 1**	**Level 2**	**Level 3**
Non-trading financial assets that are measured at fair value through profit or loss	**0**	**0**	**1,664**
Equity instruments	0	0	318
Debt securities	0	0	1,346
Financial assets at fair value through other comprehensive income	**262,085**	**3,128**	**2,160**
Equity instruments	0	3,128	141
Debt securities	262,085	0	2,019

	31 Dec 2019		
ASSETS	**Level 1**	**Level 2**	**Level 3**
Non-trading financial assets that are measured at fair value through profit or loss	**0**	**0**	**4,163**
Equity instruments	0	0	820
Debt securities	0	0	3,343
Financial assets at fair value through other comprehensive income	**268,670**	**7,631**	**2,381**
Equity instruments	0	7,631	141
Debt securities	268,670	0	2,240

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

Fair value of financial assets as at 31 December 2020

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

Fair value of financial assets as at 31 December 2019

Financial assets at fair value	Fair value at 31 Dec 2019	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	3,343	Level 3	carrying amount at cost; value assessment
Equity instruments Deposit certificates	820	Level 3	carrying amount at cost; value assessment
Debt securities			
Bonds of the Republic of Croatia	192,590	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	21,994	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	54,086	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Bonds of the company Samoborka d.d.	2,240	Level 3	carrying amount at cost
Equity instruments			
Share in HROK d.o.o.	141	Level 3	carrying amount at cost
Units in an alternative venture capital investment fund with a private offering	7,631	Level 2	market price - published share price on the valuation day

VI FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

37. 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 2020 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placement**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	300,385	629			299,756
Non-traded financial assets at fair value through profit or loss	1,664	0	0	0	1,664
Financial assets at fair value through other comprehensive income	267,973	601	0	0	267,372
Financial assets-debt securities at amortized cost	2,152	5	0	1,449	698
Financial assets-loans and advances at amortized cost	1,019,968	8,885	1,765	119,854	889,464
Receivables from the Croatian National Bank	*67,519*	*155*			67,364
Placements with credit institutions	*17,136*	*39*		*36*	17,061
Loans and advances to customers	*935,313*	*8,691*	*1,765*	*119,818*	805,039
Investment in an affiliated company	0	0	0	0	0
Property, plant and equipment	23,348	0	0	0	23,348
Intangible assets	10,106	0	0	0	10,106
Current tax assets	1,599	0	0	0	1,599
Other assets	7,575	0	0	0	7,575
Total balance sheet exposure	**1,634,771**	**10,120**	**1,765**	**121,304**	**1,501,582**
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	32,092	222	0	14	31,856
Letters of credit	0	0	0	0	0
Credit and other commitments	87,941	1,044	16	54	86,827
Total off-balance sheet exposure:	**120,033**	**1,266**	**16**	**68**	**118,683**
Total 31 December 2020	**1,754,804**	**11,386**	**1,781**	**121,372**	**1,620,265**

37. Credit risk (continued)

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2019 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placement**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	203,962	368			203,594
Non-traded financial assets at fair value through profit or loss	4,163	0	0	0	4,163
Financial assets at fair value through other comprehensive income	279,196	514	0	0	278,682
Financial assets-debt securities at amortized cost	5,572	20	0	1,581	3,971
Financial assets-loans and advances at amortized cost	1,101,555	8,245	1,440	134,735	957,135
Receivables from the Croatian National Bank	*89,567*	*206*			*89,361*
Placements with credit institutions	*16,417*	*20*		*37*	*16,360*
Loans and advances to customers	*995,571*	*8,019*	*1,440*	*134,698*	*851,414*
Investment in an affiliated company	0	0	0	0	0
Property, plant and equipment	25,389	0	0	0	25,389
Intangible assets	7,773	0	0	0	7,773
Current tax assets	1,752	0	0	0	1,752
Other assets	11,877	0	0	0	11,877
Total balance sheet exposure	**1,641,239**	**9,147**	**1,440**	**136,316**	**1,494,336**
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	13,254	90	1	0	13,164
Letters of credit	0	0	0	0	0
Credit and other commitments	93,754	1,076	11	117	92,550
Total off-balance sheet exposure:	***107,008***	***1,166***	***12***	***117***	***105,713***
Total 31 December 2019	**1,748,247**	**10,313**	**1,452**	**136,433**	**1,600,049**

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

An overview of received collaterals is as follows

37. Credit risk (continued)

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

31 Dec 2019	
	Gross loans and advances to clients
Gross loans and advances to clients	**995,572**
Secured loans:	
Deposits	30,875
Guarantees	56,356
Residential real estate	83,347
Commercial real estate	167,355
Other real estate	52,041
Credit insurance	6,285
Stocks	34,051
Movables	30,106
TOTAL	**460,416**
Insured share	**46.25%**

- **Sale of receivables**

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

In 2019, the Bank sold HRK 23.3 million of gross receivables (HRK 5.2 million net receivables) to third parties for HRK 12.3 million, which resulted in the release of impairment provisions of HRK 7.1 million.

37. 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 December 2020			Phase 1		Phase 3	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances						
Economy	43,557	(16,388)	4,251	(35)	39,306	(16,354)
Retail	18,064	(5,887)	7,356	(125)	10,709	(5,762)
Total	**61,621**	**(22,275)**	**11,607**	**(159)**	**50,015**	**(22,116)**

31 December 2020			Phase 1		Phase 3	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances						
Economy	49,228	(18,483)	4,598	(23)	44,630	(18,460)
Retail	20,142	(5,360)	8,574	(103)	11,568	(5,257)
Total	**69,370**	**(23,843)**	**13,172**	**(126)**	**56,198**	**(23,717)**

38. 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 2020.

	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	TOTAL
ASSETS							
Cash	21,375	278,381	0	0	0	0	299,756
Non-trading financial assets at fair value through profit or loss	402	0	0	0	0	1,262	1,664
Financial assets at fair value through other comprehensive income	19,070	0	62	246,476	543	1,221	267,373
Financial assets at amortized cost - debt securities	0	220	477	0	0	0	697
Financial assets at amortized cost - loans and advances	19,258	30,208	28,746	486,759	144,628	179,865	889,464
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	23,348	0	0	0	0	0	23,348
Intangible assets	10,106	0	0	0	0	0	10,106
Tax assets	1,599	0	0	0	0	0	1,599
Other assets	7,575	0	0	0	0	0	7,575
Total assets	**102,733**	**308,809**	**29,286**	**733,235**	**145,171**	**182,348**	**1,501,582**
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	5,203	0	0	584,956	0	0	590,159
Fixed-term deposits	20,627	72,912	83,249	284,858	148,001	9,699	619,346
Liabilities for received loans	52	438	2,585	4,290	7,235	84,716	99,316
Other financial liabilities	1	72	145	670	787	650	2,325
Tax liabilities	202	0	0	0	0	0	202
Provisions	4,765	0	0	0	0	0	4,765
Other liabilities	18,286	0	0	0	0	0	18,286
Total liabilities	**49,136**	**73,422**	**85,979**	**874,774**	**156,023**	**95,065**	**1,334,399**
CAPITAL							
Total capital	**167,183**	**0**	**0**	**0**	**0**	**0**	**167,183**
Total liabilities and capital	**216,319**	**73,423**	**85,979**	**874,773**	**156,023**	**95,065**	**1,501,582**
NET ASSETS / EQUITY AND LIABILITIES	**-113,586**	**235,386**	**-56,693**	**-141,538**	**-10,852**	**87,283**	**0**

38. 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 2019.

	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	25,245	178,349	0	0	0	0	203,594
Non-trading financial assets at fair value through profit or loss	882	0	0	0	0	3,281	4,163
Financial assets at fair value through other comprehensive income	22,781	0	23,133	230,780	514	1,474	278,682
Financial assets at amortized cost - debt securities	0	842	1,534	1,595	0	0	3,971
Financial assets at amortized cost - loans and advances	7,778	42,119	34,514	467,501	178,311	226,912	957,135
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	25,389	0	0	0	0	0	25,389
Intangible assets	7,773	0	0	0	0	0	7,773
Tax assets	1,752	0	0	0	0	0	1,752
Other assets	11,877	0	0	0	0	0	11,877
Total assets	103,477	221,310	59,181	699,876	178,825	231,667	1,494,336
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	2,300	137	0	521,152	0	0	523,589
Fixed-term deposits	22,721	87,860	125,762	310,964	164,481	10,447	722,235
Liabilities for received loans	611	367	2,732	4,761	35,070	12,439	55,980
Other financial liabilities	122	68	137	631	1,482	822	3,262
Tax liabilities	105	0	0	0	0	0	105
Provisions	6,533	0	0	0	0	0	6,533
Other liabilities	17,012	0	0	0	0	0	17,012
Total liabilities	**49,404**	**88,432**	**128,631**	**837,508**	**201,033**	**23,708**	**1,328,716**
CAPITAL							
Total capital	**165,620**	**0**	**0**	**0**	**0**	**0**	**165,620**
Total liabilities and capital	**215,024**	**88,432**	**128,631**	**837,508**	**201,033**	**23,708**	**1,494,336**
NET ASSETS / EQUITY AND LIABILITIES	**-111,547**	**132,878**	**-69,450**	**-137,632**	**-22,208**	**207,959**	

38. Interest rate risk (continued)

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

	2020	19
	%	%
Assets		
Placements with credit institutions	0.33	1.59
Loans and advances to clients	6.03	6.76
Liabilities		
Demand deposits	0	0
Fixed-term deposits	0.79	0.98
Loan liabilities	0.76	1.34

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

	31 December 2020			31 December 2019		
D e s c r i p t i o n	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	1,485,405	1,312,879	115,701	1,412,675	1,315,124	106,988
Europe	16,175	20,478	2,982	81,661	13,523	20
Other countries	2	97	0	0	69	0
Other	0	168,128	0	0	165,620	0
Total geographical region	**1,501,582**	**1,501,582**	**118,683**	**1,494,336**	**1,494,336**	**107,008**
Sector						
Republic of Croatia	279,452	55,765	9,344	240,254	75,957	6,834
Croatian National Bank	334,624	75,156	0	239,138	25,701	0
Trade	38,441	23,612	3,034	51,703	19,552	2,572
Finance	25,400	1,708	14,237	38,076	9,476	8,622
Tourism	30,358	4,888	183	34,456	2,716	3,477
Agriculture, fisheries	29,579	12,836	4,447	49,525	16,842	718
Industry	111,632	45,478	10,892	98,539	48,170	15,144
Retail (including craftsmen and other independent occupations)	506,653	1,040,548	60,457	518,984	1,068,136	66,302
Non-residents	16,177	20,575	4,332	81,661	13,592	20
Other	129,266	221,016	11,757	142,000	214,194	3,320
Total sectorial analysis	**1,501,582**	**1,501,582**	**118,683**	**1,494,336**	**1,494,336**	**107,008**

40. Currency risk

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

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	109,238	151	7,929	0	117,318	182,438	299,756
Non-trading financial assets measured at fair value	1,664	0	0	0	1,664	0	1,664
Financial assets at fair value through other comprehensive income	75,059	0	0	74,798	149,857	117,516	267,373
Financial assets at amortized cost - debt securities	0	0	0	0	0	697	697
Financial assets at amortized cost - loans and advances	914	6,125	0	397,477	404,516	484,949	889,464
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	0	0	0	0	0	23,348	23,348
Intangible assets	0	0	0	0	0	10,106	10,106
Tax assets	0	0	0	0	0	1,599	1,599
Other assets	0	0	0	0	0	7,575	7,575
Total assets	**186,875**	**6,276**	**7,929**	**472,275**	**673,355**	**828,227**	**1,501,582**
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	257,127	2,698	6,372	0	266,197	323,964	590,161
Fixed-term deposits	389,877	3,469	1,121	2,314	396,781	222,563	619,344
Liabilities for received loans	0	0	0	14,398	14,398	84,918	99,316
Other financial liabilities	0	0	0	1,701	1,701	624	2,325
Tax liabilities	0	0	0	0	0	202	202
Provisions	1691	0	0	0	1,691	3,074	4,765
Other liabilities	338	11	15	0	364	17,922	18,286
Total liabilities	**649,033**	**6,178**	**7,508**	**18,413**	**681,132**	**653,267**	**1,334,399**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**167,183**	**167,183**
Total capital and liabilities	**649,033**	**6,178**	**7,508**	**18,413**	**681,132**	**820,450**	**1,501,582**
NAT ASSETS / EQUITY AND LIABILITIES	**-462,158**	**98**	**421**	**453,862**	**-7,777**	**7,777**	**0**

40. Currency risk (continued)

The Bank's foreign currency assets and liabilities as at 31 December 2019 are presented as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	77,581	793	7,254	0	85,628	117,966	203,594
Non-trading financial assets measured at fair value	4,163	0	0	0	4,163	0	4,163
Financial assets at fair value through other comprehensive income	54,087	0	0	100,631	154,718	123,964	278,682
Financial assets at amortized cost - debt securities	0	0	0	0	0	3,971	3,971
Financial assets at amortized cost - loans and advances	8,329	6,656	1,273	463,173	479,431	477,704	957,135
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	0	0	0	0	0	25,389	25,389
Intangible assets	0	0	0	0	0	7,773	7,773
Tax assets	0	0	0	0	0	1,752	1,752
Other assets	0	0	0	0	0	11,877	11,877
Total assets	144,160	7,449	8,527	563,804	723,940	770,396	1,494,336
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	229,366	3,170	6,340	0	238,876	284,713	523,589
Fixed-term deposits	465,602	4,127	1,374	2,368	473,471	248,764	722,235
Liabilities for received loans	0	0	0	17,960	17,960	38,020	55,980
Other financial liabilities	0	0	0	2,304	2,304	958	3,262
Tax liabilities	0	0	0	0	0	105	105
Provisions	2	0	0	0	2	6,531	6,533
Other liabilities	112	3	3	0	118	16,894	17,012
Total liabilities	695,082	7,300	7,717	22,632	732,731	595,985	1,328,716
CAPITAL							
Total capital	0	0	0	0	0	165,620	165,620
Total capital and liabilities	695,082	7,300	7,717	22,632	732,731	761,605	1,494,336
NAT ASSETS / EQUITY AND LIABILITIES	-550,922	149	810	541,172	-8,791	8,791	0

41. Liquidity risk

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

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	299,756	0	0	0	0	299,756
Non-trading financial assets measured at fair value	0	0	0	0	1,664	1,664
Financial assets at fair value through other comprehensive income	264,103	0	0	0	3,269	267,373
Financial assets at amortized cost - debt securities	221	476		0	0	697
Financial assets at amortized cost - loans and advances	79,387	69,101	137,127	205,042	398,806	889,464
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0
Tangible assets	0	0	0	0	23,348	23,348
Intangible assets	0	0	0	0	10,106	10,106
Tax assets	1,569	0	30	-	-	1,599
Other assets	34	81	0	0	7,460	7,575
Total assets	745,070	69,659	137,157	205,285	444,653	1,501,582
Liabilities						
Financial liabilities measured at amortized cost:						
Demand deposits	444,933	8,299	37,344	99,585	0	590,161
Fixed-term deposits	40,889	83,824	284,857	188,609	21,165	619,344
Liabilities for received loans	602	1,935	4,336	7,367	85,075	99,316
Other financial liabilities	195	145	670	787	528	2,325
Tax liabilities	202	0	0	0	0	202
Provisions	1,154	116	53	3,430	13	4,765
Other liabilities	18,286	0	0	0	0	18,286
Total liabilities	506,261	94,319	327,260	299,778	106,781	1,334,399
CAPITAL						
Total capital	0	0	0	0	167,183	167,183
Total capital and liabilities	505,919	94,319	327,260	299,779	275,031	1,501,582
NET ASSETS / EQUITY AND LIABILITIES	239,151	-24,660	-190,103	-94,493	169,622	0

41. Liquidity risk (continued)

The remaining maturity of the Bank's assets and liabilities as at 31 December 2019 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	203,594	0	0	0	0	203,594
Non-trading financial assets measured at fair value	0	0	0	0	4,163	4,163
Financial assets at fair value through other comprehensive income	270,910	0	0	0	7,772	278,682
Financial assets at amortized cost - debt securities	842	1,534	1,595	0	0	3,971
Financial assets at amortized cost - loans and advances	95,496	83,423	197,877	212,617	367,722	957,135
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0
Tangible assets	0	0	0	0	25,389	25,389
Intangible assets	0	0	0	0	7,773	7,773
Tax assets	0	0	990	291	471	1,752
Other assets	47	96	0	0	11,734	11,877
Total assets	**570,889**	**85,053**	**200,462**	**212,908**	**425,024**	**1,494,336**
Liabilities						
Financial liabilities measured at amortized cost:						
Demand deposits	401,390	6,983	31,423	83,793	0	523,589
Fixed-term deposits	67,410	127,707	310,756	193,937	22,425	722,235
Liabilities for received loans	365	1,997	5,002	35,828	12,788	55,980
Other financial liabilities	190	137	631	1,482	822	3,262
Tax liabilities	0	0	105	0	0	105
Provisions	1,156	392	117	4,867	1	6,533
Other liabilities	16,994	0	18	0	0	17,012
Total liabilities	**487,505**	**137,216**	**348,052**	**319,907**	**36,036**	**1,328,716**
CAPITAL						
Total capital	0	0	0	0	165,620	165,620
Total capital and liabilities	487,505	137,216	348,052	319,907	201,656	1,494,336
NET ASSETS / EQUITY AND LIABILITIES	83,384	-52,163	-147,590	-106,999	223,368	0

42. Capital management

Capital management

Credit institutions in the Republic of Croatia are required to calculate and report the prudential information in accordance with Regulation (EU) No. 575/2013, Directive 2013/36/EU, Implementation technical standards and other relevant regulations of the European supervisory authorities for banking ("EBA") and also, the local regulator, the CNB.

The regulatory capital of the Bank consists entirely of the equity capital, which includes equity generated by ordinary shares, capital gains, retained earnings, reserves, accrued other comprehensive income, other transitional adjustments (transitional provisions when IFRS 9 is introduced), less equity acquired, intangible property, and adjustments to regular share capital due to prudential filters.

The prescribed minimum capital ratios in accordance with Art. 92 of Regulation (EU) No. 575/2013 is the following:

- The rate of regular share capital 4.5% of total risk exposure
- The rate of core capital 6% of the total risk exposure
- The rate of the total capital of 8% of the total risk exposure

In addition to the set of minimum regulatory capital adequacy and according to Articles 117 and 130 of the Credit Institutions Act and Articles 129 and 133 of Directive 2013/36/EU, the Bank is also obliged to provide the following hedges:

- Hedging for preservation of capital of 2.5% of the total risk exposure
- Hedging for structural system risk of 1.5% of the total risk exposure

Supervisory assessment of the required rate of the total capital amounted to 16.18% (12% + 4.18% regulatory hedging for 2020).

Description	Basel III 31 Dec 2020 HRK '000	Basel III 31 Dec 2019 HRK '000
Ordinary shares paid-in	*91,897*	*91,897*
Own/treasury shares	(6,592)	(6,592)
Regular and non-cumulative preferred shares	85,305	85,305
Reserves	*15,182*	*15,182*
Capital profit from purchase and sale of own shares	*149*	*149*
Retained earning	*65,738*	*63,421*
Reserves and retained earnings	81,069	78,752
Intangible assets	(8,864)	(7,773)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	0

42. Capital management (continued)

(continued)	Basel III 31 Dec 2020	Basel III 31 Dec 2019
D e s c r i p t i o n	HRK '000	HRK '000
Accumulated other comprehensive income	(1,149)	(1,268)
Impairment due to prudential valuation	(269)	(283)
Other transitional adjustments	3,879	4,710
Loss for the year	0	0
TIER 1 CAPITAL	**159,971**	**159,444**
REGULATORY CAPITAL	159,971	159,444
CAPITAL ADEQUACY RATE	**19.43%**	**17.59%**

VII EVENTS AFTER THE REPORTING DATE AND COVID-19 PANDEMIC

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

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

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

Period	01.01.2019. 30.06.2019.	01.07.2019. 31.12.2019.	01.01.2020. 30.06.2020.	01.07.2020. 31.12.2020.
Macroeconomic indicators				
GDP	2.70%	2.40%	2.80%	-9.70%
Unemployment	-0.80%	-2.20%	-0.70%	2.30%
Inflation	0.90%	0.80%	1.40%	-0.03%
Weights for macroeconomic scenarios				
Pessimistic scenario	15.00%	15.00%	15.00%	15.00%
Neutral scenario	70.00%	70.00%	70.00%	70.00%
Optimistic scenario	15.00%	15.00%	15.00%	15.00%

-PD-influenced by macroeconomics				
PO	30.6.2019.	31.12.2019.	30.6.2020.	31.12.2020.
PD model by delay day ranges				
0	1.44%	1.44%	1.41%	1.53%
1-30	14.91%	19.99%	9.81%	10.39%
31-60	16.19%	24.25%	20.17%	21.12%
61-90	27.40%	27.40%	26.50%	27.61%

FO				
Model PD				
0	1.95%	1.95%	1.78%	1.93%
1-30	7.23%	7.23%	8.34%	8.87%
31-60	12.12%	12.12%	18.75%	19.61%
61-90	32.71%	32.71%	32.75%	33.96%

The Bank has adopted measures to help citizens whose incomes are threatened by the COVID-19 pandemic, which include extending the repayment period with reduced monthly annuities, a moratorium on principal repayment no later than 31 March 2021, and maintaining limits on overdrafts and credit cards. As at 31 December 2020, exposures to customers who have benefited from support measures are shown as follows:

	BALANCE AT 31 DECEMBER 2020			**STATUS COVID-19 (MORATORIUM) AT 31 DECEMBER 2020**				
SEGMENT	**REGULATORY CAPITAL**	**NO. OF LOANS**	**BALANCE OF LOAN PRINCIPLE**	**TOTAL EXPOSURE 31 DECEMBER**	**EXPOSURE BY PRINCIPAL 31 DECEMBER**	**SHARE**	**NO OF LOANS**	**SHARE**
LEGAL ENTITIES	49.93%	464	351,761,565,60	79,875,904,54	73,741,003,63	20.96%	48	10,34%
CRAFTS AND FAMILY FARMS	1.79%	451	80,789,755,43	2,865,640,73	2,779,787,81	3.44%	8	1,77%
NATURAL PERSONS	13.51%	14,167	450,499,439,80	21,613,813,17	20,643,228,28	4.58%	236	1,67%
housing loans				343,261,41	330,562,94	1.60%	3	
cash loans				21,270,551,76	20,312,665,34	98.40%	233	
	65.23%	**15,082**	**883,050,760,83**	**104,355,358,44**	**97,164,019,72**	11.00%	**292**	
Capital 31 December 2020	**159,970,834**							

In accordance with the instructions of the ECB and the CNB, the use of support measures does not automatically constitute a change in classification or an indicator of deterioration in the client's financial position and the emergence of a significant increase in credit risk. The Bank monitors changes in credit risk in all sensitive clients. The Bank considers that this or other events after the balance sheet date do not require adjustment as it is not feasible to provide a quantitative assessment of the potential impact of the COVID-19 virus on the Bank.

VIII LITIGATION AND CONTINGENT LIABILITIES

As at 31 December 2020, there are several court claims currently being held against the Bank; they are all of lesser value except the claim initiated by Jugobanka d.d., in bankruptcy, Belgrade. The Commercial court in Bjelovar rendered its verdict on 19 June 2008 (Decision VP-167/08-27), whereby the claim of the plaintiff was dismissed as baseless. Appeal was filed against this Decision. At the same time, the plaintiff brought forward a claim for temporary court injunction, to which claim the High Commercial Court of the Republic of Croatia rendered its verdict on 3 June 2008, Decision Pž-3109/08-4, whereby the claim of the plaintiff was dismissed as baseless, and the Decision of the Commercial court in Bjelovar was held up.

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

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

Croatian Supreme Court, by judgment of 7 May 2014, No Revt 156 / 13-2, reversed the judgment of the High Commercial Court of the Republic of Croatian number: 52,Pž-6092 / 08-3 of 30 October 2012 in the way that the part of the judgment of the Commercial Court in Bjelovar the number P-167 / 08-27 of 19 June 2008, which denied request to establish the nullity of the Assumption Agreement the rights and obligations of 26 October 1992 had dismissed the appeal of the plaintiff as unfounded and in that part confirmed the first-instance judgment. This made the decision of the Commercial Court in Bjelovar on 19 June 2008 in respect of the rejection of the claim Jugobanka a.d., in bankruptcy, Belgrade, for the nullity of the Treaty established in 1992 legal and final.
On 13 February 2015, the Bank received Resolution from the Supreme Court of the Republic of Croatia in the case of prosecutor Jugobanka a.d. in bankruptcy, Belgrade, by which it has accepted the appeal of the Bank against the verdict of the High Commercial Court of the Republic of Croatia dated 30 October 2012.

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

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

IX APPROVAL OF FINANCIAL STATEMENTS

These financial statements were signed and authorized for issuing by the Management Board on 26 March 2021.

For and on behalf of the Management Board:

SLATINSKA BANKA d.d.

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

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

SLATINSKA BANKA d.d., Slatina
Appendix 1 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

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

The Bank is providing the following banking services

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

In 2020, the Bank operated through its headquarters in Slatina, office in Zagreb and branches Osijek, Rijeka, Zagreb, D. Miholjac, Daruvar, Đakovo, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo and Virovitica.

SLATINSKA BANKA d.d., Slatina
Appendix 1 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

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

	2020 HRK '000
Total revenue	71.814
Profit before tax	2.289
Income tax	(933)
Number of employees on 31 December 2020	179
Number of full-time employees (paid working hours) in 2020	167
The number of employees on the basis of equivalent full working time in 2020	140

The cost of the audit of the annual financial statements and the related audit for the needs of the Croatian National Bank amounted to HRK 140 thousand plus VAT. During 2020 and in the two years preceding the year of the audit, the auditor did not perform any other assignments for the Bank.

The Bank did not receive public subsidies in 2020.

SLATINSKA BANKA d.d., Slatina
Appendix 2 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

Statement of Financial Position (Balance Sheet)
Balance at 31 December 2020
Taxpayer: SLATINSKA BANKA d.d.

Description		AOP code	Note no.	Preceding year	Current year
1		2	3	4	5
ASSETS					
1.	**Cash, cash receivables from central banks and other demand deposits (AOP 002 to 004)**	**001**		**203,594,237**	**299,756,120**
1.1.	Cash	**002**		25,613,804	22,004,522
1.2.	Cash receivables from central banks	**003**		149,776,877	267,259,976
1.3.	Other demand deposits	**004**		28,203,556	10,491,622
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**		**4,162,942**	**1,663,939**
3.1.	Equity instruments	**011**		820,306	318,063
3.2.	Debt securities	**012**		3,342,636	1,345,876
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**		**278,682,116**	**267,372,692**
5.1.	Equity instruments	**018**		7,772,458	3,269,346
5.2.	Debt securities	**019**		270,909,658	264,103,346
5.3.	Loans and advances	**020**		0	
6.	**Financial assets at amortised cost (AOP 022+023)**	**021**		**961,106,690**	**890,168,560**
6.1.	Equity instruments	**022**		3,971,401	697,356
6.2.	Loans and advances	**023**		957,135,289	889,471,204
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**		**25,389,403**	**23,348,393**
11.	**Intangible assets**	**028**		**7,772,537**	**10,106,189**
12.	**Tax assets**	**029**		**1,751,508**	**1,599,466**
13.	**Other assets**	**030**		**11,876,571**	**7,566,935**
14.	**Fixed assets and disposal groups classified as ready-to –sale**	**031**		**0**	**0**
15.	**TOTAL ASSETS (AOP) 001+005+010+014+017+021+024TO031)**	**032**		**1,494,336,004**	**1,501,582,294**

SLATINSKA BANKA d.d., Slatina
Appendix 2 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

Statement of Financial Position (Balance Sheet)
Balance at 31 December 2020
Taxpayer: SLATINSKA BANKA d.d.

Description		AOP code	Note no.	Preceding year	Current year
1		2	3	4	5
Liabilities					
1.	**Financial liabilities held for trade (AOP 034 to 038)**	**033**		**0**	**0**
1.1.	Derivatives	**034**		0	0
1.2.	Short term items	**035**		0	0
1.3.	Deposits	**036**		0	0
1.4.	Issued debt securities	**037**		0	0
1.5.	Other financial liabilities	**038**		0	0
2.	**Financial liabilities at fair value through profit or loss (AOP 040 to 042)**	**039**		**0**	**0**
2.1.	Deposits	**040**		0	0
2.2.	Issued debt securities	**041**		0	0
2.3.	Other financial liabilities	**042**		0	0
3.	**Financial liabilities measured at amortised cost (AOP 044 to 046)**	**043**		**1,305,066,150**	**1,311,268,063**
3.1.	Deposits	**044**		1,301,803,916	1,308,820,609
3.2.	Issued debt securities	**045**		0	0
3.3.	Other financial liabilities	**046**		3,262,234	2,447,454
4.	**Derivatives – hedge accounting**	**047**		**0**	**0**
5.	**Changes in fair value of hedged items in interest risk portfolio**	**048**		**0**	**0**
6.	**Provisions**	**049**		**6,532,715**	**4,765,146**
7.	**Tax liabilities**	**050**		**104,688**	**201,642**
8.	**T1 capital returned at request**	**051**		**0**	
9.	**Other liabilities**	**052**		**17,012,152**	**18,165,997**
10.	**Laiblilities included in disposal groups classified as ready for sale**	**053**		**0**	
11.	**TOTAL LIABILITIES (AOP 033+039+043+047 to053)**	**054**		**1,328,715,705**	**1,334,400,848**
EQUITY					
12.	**Share capital**	**055**		**91,897,200**	**91,897,200**
13.	**Share premium**	**056**		**148,620**	**148,620**
14.	**Issued equity instruments (excluding capital)**	**057**		**0**	**0**
15.	**Other equity instruments**	**058**		**0**	**0**
16.	**Accumulated other comprehensive profit**	**059**		**-706,282**	**-548,255**
17.	**Retained earnings**	**060**		**63,421,523**	**65,737,662**
18.	**Revaluation reserves**	**061**		**0**	**0**
19.	**Other reserves**	**062**		**15,182,803**	**15,182,803**
20.	**Treasury shares**	**063**		**-6,592,348**	**-6,592,348**
21.	**Profit or loss belonging to owners of parent company**	**064**		**2,268,783**	**1,355,764**
22.	**Dividend during the business year**	**065**		**0**	
23.	**Minority (non-controlling share)**	**066**		**0**	
24.	**TOTAL CAPITAL (AOP 055 to 066)**	**067**		**165,620,299**	**167,181,446**
25.	**TOTAL LIABILITIES AND CAPITAL (AOP 054+067)**	**068**		**1,494,336,004**	**1,501,582,294**

SLATINSKA BANKA d.d., Slatina
Appendix 2 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

Profit and Loss Account
For the period from 01 January 2020 to 31 December 2020
Taxpayer: SLATINSKA BANKA d.d.

	Description	AOP code	Note no.	Preceding year	Current year
	1	2	3	4	5
1.	Interest income	**069**		60,779,451	55,258,955
2.	Interest expenses	**070**		8,823,325	6,159,173
3.	Expenses from T1 capital returned upon request	**071**		0	0
4.	Income from dividends	**072**		0	0
5.	Fee and commission income	**073**		13,251,172	11,514,125
6.	Fee and comission expenses	**074**		4,203,749	3,736,132
7.	Gains or losses after ceasing recognition of financial assets and financial liabilities not measured at fair value through profit or loss, net	**075**		11,361,027	48,041
8.	Gains or losses from financial assets and financial liabilities held for trade, net	**076**		2,764,119	1,984,045
9.	Gains or losses from financial assets not held for trade, measured at fair value through profit or loss, net	**077**		0	-2,635,319
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**		-3,062	-191,830
13.	Gains or losses after ceasing recognition of non-financial assets, net	**081**		0	0
14.	Other operating income	**082**		10,822,546	3,009,112
15.	Other operating expenses	**083**		3,582,846	990,365
16.	**TOTAL OPERATING INCOME (AOP069-070-071+072+073-074+075 to082-083)**	**084**		**82,365,333**	**58,101,459**
17.	Administrative expenses	**085**		38,196,232	42,849,322
18.	Amortisation	**086**		4,293,612	4,450,846
19.	Gains or losses due to change, ner	**087**		0	0
20.	Provisions or discontinuation of provisions	088		1,855,738	-1,767,477
21.	Impairment or discontinuation of impairment of financial assets not measured at fair value through profit or loss	**089**		34,231,033	10,279,565
22.	Impairment or discontinuation of impairment of investment in subsidiaries, joint ventures and affiliates	**090**		-952,360	0
23.	Impairment or discontinuation of impairment of non-financial assets	091		820,825	0
24.	Negative goodwill recognised in profit or loss	**092**		0	0
25.	Share in profit or loss from investemnts in subsidiaries, joint ventures and affiliates, calculated by share method	**093**		0	0
26.	Profit or loss from fixed assets and disposal groups classified as ready for sale and not qualified as non-continuing	**094**		0	0
27.	**PROFIT OR LOSS BEFORE TAXATION (FROM CONTINUING OPERATIONS) AOP 084-085+087-088 to091+092 to 094**	**095**		**3,920,253**	**2,289,203**
28.	Tax income or expenses from continuing operations	**096**		1,651,470	933,439
29.	**PROFIT OR LOSS AFTER TAXATION (FROM CONTINUING OPERATIONS) AOP 095-096**	**097**		**2,268,783**	**1,355,764**
30.	Profit or loss after taxation (from non-continuing concern operations) (AOP 099—100)	**098**		0	0
30.1.	Profit or loss before taxation (from non-continuing operations)	**099**		0	0
30.2.	Tax income or expenses from non-continuing operations	**100**		0	0
31.	**PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097+098; 102+103)**	**101**		**2,268,783**	**1,355,764**
32.	Attributed to minority (non-controlling) share	**102**		0	0
33.	Attributed to owners of parent company	**103**		0	0

SLATINSKA BANKA d.d., Slatina
Appendix 2 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

Profit and Loss Account - continued
For the period from 01 January 2020 to 31 December 2020
Taxpayer: SLATINSKA BANKA d.d.

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
STATEMENT OF OTHER COMPREHENSIVE INCOME				
1. Profit or loss for the current year (AOP 101)	**104**		**2,268,783**	**1,355,764**
2. Other comprehensive income (AOP 106+118)	**105**		**-849,238**	**83,806**
2.1. Items not reclassified into profit or loss (AOP 107 to 113+116+117)	**106**		44,375	-950,124
2.1.1. Tangible assets	**107**		0	0
2.1.2. Intangible assets	**108**		0	0
2.1.3. Actuarial gains or losses on employer sponsored pension plans	**109**		0	0
2.1.4. Fixed assets and disposal groups ready for sale	**110**		0	0
2.1.5. Share of other recognised income and expenses from subjects calculated by share method	**111**		0	0
2.1.6. Changes of fair value of equity instruments measured at fair value through other comprehensive income	**112**		44,375	-950,124
2.1.7. Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	**113**		0	0
2.1.8. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	**114**		0	0
2.1.9. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)	**115**		0	0
2.1.10. Changes of fair value of financial liabilities measured at fair value through profit or loss, attibuted to changes in currency risk	**116**		0	0
2.1.11. Corporate income tax related to non-reclassified items	**117**		0	0
2.2. Items that can be reclassified into profit or loss (AOP 119 to 126)	**118**		-893,613	1,033,930
2.2.1. Hedging of net investment in foreign operations (effective shares)	**119**		0	0
2.2.2. Calculation of foreign currency	**120**		0	0
2.2.3. Hedging of cash flows (effective shares)	**121**		0	0
2.2.4. Risk protection insrtruments (not determined)	**122**		0	0
2.2.5. Debt instruments at fair value through other comprehensive income	**123**		-893,613	1,033,930
2.2.6. Fixed assets and disposal groups ready for sale	**124**		0	0
2.2.7. Share of other recognised income and expenses from investment in subsidiaries, joint ventures and affiliates	**125**		0	0
2.2.8. Corporate incoem tax related to items that can be classified into profit or loss	**126**		0	0
3. Total comprehensive income of the current year (AOP 104+106 and AOP 128+129)	**127**		**1,419,545**	**1,439,570**
4. Attributed to minority (non-controlling) share	**128**		**0**	**0**
5. Attributed to owners of mother company	**129**		**0**	**0**

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Statement of Cash Flows – Indirect Method
For the period from 01 January 2020 to 31 December 2020
Taxpayer: SLATINSKA BANKA d.d.

Description		AOP code	Note no.	Preceding year	Current year
1		2	3	4	5
Operating activities and adjustments					
1.	Profit / loss before taxation	**001**		3,920,253	2,289,203
2.	Impairment ad provisions	**002**		35,955,236	8,512,088
3.	Depreciationa	**003**		4,293,612	4,450,846
4.	Net gains/ losses from financial assets at fair value in P&L Statement	**004**		0	2,635,000
5.	Gains/losses from sale of tangible assets	**005**		0	0
6.	Other non-monetary items	**006**		-924,088	1,561,000
Changes in operating assets and liabilities					
7.	Deposits with CNB	**007**		3,815,231	21,778,000
8.	Deposits with banking institutions and loans to credit institutions	**008**		2,822,965	-886,000
9.	Loans to other clients	**009**		-102,706,583	36,572,000
10.	Securities and other financial instruments at fair value through other comprehensive income	**010**		62,724,584	11,223,000
11.	Securities and other financial instruments held for trade	**011**		0	
12.	Securities and other financial instruments not actively traded and evaluated at fair value through profit and loss	**012**		0	
13.	Securities and other financial instruments measured at fair value through profit or loss	**013**		-4,101,531	-136,000
14.	Securities and other financial instruments measured at amortised cost	**014**		1,619,352	3,288,000
15.	Other operating assets	**015**		1,235,175	3,730,000
Increase / decrease in operating liabilities					
16.	Deposits from financial institutions	**016**		0	0
17.	Transaction accounts of other clients	**017**		41,189,570	56,651,857
18.	Saving depostis of other clients	**018**		57,826,954	9,920,153
19.	Term deposits of other clients	**019**		-134,746,462	-102,891,081
20.	Derived financial liabilities and other trading liabilities	**020**		0	0
21.	Other liabilities	**021**		-1,026,852	3,451,902
22.	Collected interest from operating activities	**022**		266,039	373,820
23.	Received dividends from operating activities	**023**		0	0
24.	Paid interest from perating activities	**024**		-2,878,120	-2,797,722
25.	Paid corporate income tax	**026**		0	0
A)	**Net cash flow from operating activities (AOP 021 to 024)**	**026**		**-30,714,665**	**59,726,066**
Investing activities					
1.	Receipts from sale / purchase / tangible and intangible assets	027		2,648,662	-4,743,000
2.	Receipts from sale / purchase / investments in subsidiaries, joint ventures and affiliates	028		6,650,000	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**		**9,298,662**	**-4,743,000**
Financing activities					
1.	Net increase / reduction in received loans	**033**		-40,482,566	43,336,000
2.	Net increase / reduction in issued debt securities	**034**		0	0
3.	Net increase / reduction in subordinate and hybrid instruments	**035**		0	0
4.	Increase in T1 capital	**036**		0	0
5.	Paid dividends	**037**		0	0
6.	Other receipts / payments from financial activities	**038**		972,479	-693,000
C)	**Net cash flow from financial activities (AOP 032 to 037)**	**039**		**-39,510,087**	**42,643,000**
D)	**Net increase / reduction in cash and cash equivalents (AOP 025+031+038))**	**040**		**-60,926,090**	**97,626,066**
Cash and cash equivalents at the beginning of the year		**041**		**264,520,327**	**203,594,237**
Influence of changes in exchange rate on cash and cash equivalents		**042**			
Cash and cash equivalents at the end of the year (AOP 039+040+041)		**043**		**203,594,237**	**301,220,303**

SLATINSKA BANKA d.d., Slatina
Appendix 2 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

Statement of Changes in Equity
For the period from 01 January 2020 to 31 December 2020
Taxpayer: SLATINSKA BANKA d.d.

Position	ADP	Note	Attributable to the owner of parent											Minority interest		Total
			Share capital	Share premium	Equity instruments (other than share capital)	Other shares	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit/loss attributable to the owners of parent	Dividend	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Opening balance (before corrections)	01		91,897,200	148,620	0	0	-706,282	63,421,523	0	15,182,803	-6,592,348	2,268,783	0	0	0	165,620,299
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	-706,282	63,421,523	0	15,182,803	-6,592,348	2,268,783	0	0	0	165,620,299
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	-47,356	2,316,139	0	0		-2,268,783	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						121,577									121,577
20. total comprehensive profit for the current year	20						83,806					1,355,764				1,439,570
21. closing balance (current period) (AOP 04 to 20)	21		91,897,200	148,620	0	0	-548,255	65,737,662	0	15,182,803	-6,592,348	1,355,764	0	0	0	167,181,446

Off-balance sheet items:

1	OFF-BALANCE SHEET ITEMS	31 Dec 2019	31 Dec 2020
2	Guarantees	13.254.300	32.092.452
3	Letters of credit	0	0
4	Letters of guarantee,	0	0
5	Accepted bills of exchange	0	0
6	Revolving loans	4.723.791	4.730.662
7	Indicative margin loans	11.285.316	0
8	Other credit lines and commitments	77.744.488	83.210.029
9	Other risk off-balance sheet items	0	0
10	Total off-balance sheet items	107.007.895	120.033.143

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

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

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

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

The annual financial statements of the Bank for the period ended 31 December 2020 and the accompanying accounting policies and notes as an integral part thereof were signed and approved by the Bank's Management Board on 26 March 2021.

SLATINSKA BANKA d.d., Slatina

Appendix 2 - the Bank's annual financial statements prepared according to the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/18, 122/20)

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:

	CNB Decision			Financial statements	
Position	in HRK '000	Position	in HRK '000	Note	Difference
ASSETS		ASSETS			
1. Cash, cash receivables from credit institutions and other demand deposits (ADP 002 to 004)	299,756	Cash and cash equivalents	299,756	15	0
3. Non-traded financial assets measured at fair value through profit or loss (ADP 011 to 013)	1,663,939	Financial instruments at fair value through profit or loss	1,663,939	16	0
5. Financial assets at fair value through other comprehensive income (ADP 018 to 020)	267,373	Financial assets at fair value through OCI	267,373	17	0
6.1. Debt securities – financial assets at amortised cost	697,356	Financial assets at amortised cost debt securities	697,356	18	0
6.2. Loans and advances	889,471	Loans	889,464		7
		Receivables from Croatian National Bank	67,364	19	-67,364
		Loans and receivables from banks	17,061	19	-17,061
		Loans and advances – clients	805,039	19	805,039
10. Tangible assets	23,348	Property, plant and equipment	23,348	21	0
11. Intangible assets	10,106	Intangible assets	10,106	22	0
12. Tax assets	1,599	Deferred and current tax assets	1,599	23	0
13. Other assets	7,568	Other assets	7,575	24	-7
15. TOTAL ASSETS (ADP 001+005+010+014+017+021+024 to 031	1,501,582	Total assets	1,501,582		0
LIABILITIES		LIABILITIES			
18.1. Deposits	1,308,821	Deposits	1,308,821	25	0
		Current accounts and client and bank deposits	1,209,505	25	-1,209,505
		Liabilities under received loans	99,316	25	-99,316
Other financial liabilities	2,447	Lease liabilities – IFRS 16	2,325	26	122
21. Provisions	4,765	Provisions for liabilities and expenses	4,765	27	0
22. Tax liabilities	202	Current tax liability	202	28	0
24. Other liabilities	18,166	Other liabilities	18,286	29	-120
26. TOTAL LIABILITIES (ADP 033+039+043+047 to 053)	1,334,401	Total liabilities	1,334,401		0
CAPITAL		CAPITAL		30	
27. Share capital	91,897	Share capital	91,897		
28. Share premium	149	Share premium	149		
29. Equity instruments issued (other than share capital)	0				
30. Other equity instruments	0				
31. Accumulated other comprehensive income	-548	Fair value reserve	-549		
32. Retained earnings	65,738	Retained earnings	67,094		
33. Revaluation reserves	0				
34. Other reserves	15,183	Other reserves	15,183		
35. Treasury shares	-6,592	Reserves on own shares	-6,592		
36. Profit or loss attributable to the owners of parent	1,356				
37. Dividends					
38. Minority (non-controlling) interest					
39. TOTAL CAPITAL (ADP 055to 066)	167,183	TOTAL CAPITAL	167,183		0
40. TOTAL EQUITY AND LIABILITIES (ADP 054+067)	1,501,582	TOTAL EQUITY AND CAPITAL	1,501,582		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.