



**KARLOVAČKA BANKA d.d.**  
**Ivana Gorana Kovačića 1, Karlovac**

**Annual Financial Statements**  
**and**  
**Independent Auditor's Report**  
**for 2020**

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**REPORT OF THE MANAGEMENT BOARD ACCOMPANYING AUDITED  
FINANCIAL STATEMENTS FOR THE PERIOD 1 January – 31 December 2020**

**Business environment**

Business environment in 2020 was largely marked by the COVID 19 pandemic and accompanying measures to restrict operations which, to a greater or lesser extent, had a negative impact on operations of almost all business entities and then consequently on the banking sector as a whole.

The macroeconomic forecasts for 2020 and 2021 are unfortunately still affected by the same crisis and serious consequences it has caused.

**Change rates**

	2020.	2021.
<b>GDP</b>	<b>-8.9</b>	<b>4.9</b>
Private consumption	-6.6	4.5
Government consumption	2.0	2.2
Fixed capital investments	-5.2	7.2
Exports of goods and services	-26.4	19.3
Imports of goods and services	-16.3	15.0
<b>LABOR MARKET</b>		
Number of employed persons (rate)	-1.5	0.7
<b>PRICES</b>		
Consumer price indeks (aver.r.)	0.2	1.0
<b>EXTERNAL SECTOR</b>		
Current Payments Balance Sheet (% GDP)	-1.0	0.1
Gross external debt (%GDP)	82.2	76.2
<b>MONETARY TRENDS</b>		
Placements with private sector (trans.)	3.2	3.0
Placements with private sector (nom.)	2.8	3.3

- **Source: Monetary Policy Projections for 2020 and 2021, December 2020**

Thus, the latest estimates of the CNB, published in December 2020, indicate a possible decline in real GDP in 2020 by 8.9%, while it is expected to grow in 2021 by approximately five percent. Earlier CNB's forecasts, published in mid-October 2020, predicted an eight percent decline in real GDP and a 5.2% growth in 2021.

The slowdown in the recovery in the fourth quarter of 2020 as well as the unfavourable epidemiological situation slowed down somewhat the recovery of the Croatian economy. This is a consequence of recent additional epidemiological measures, i.e. the partial closure of the economy which has slowed down economic activity, primarily in the catering trade.

The primary risk is the further development of the epidemiological situation and measures.

The growth of about five percent in 2021 should be generated by personal consumption as well as export growth which should be the strongest component of the recovery. The latter primarily refers to the export of services, meaning that the assumption is that the next tourist season will be significantly better than in 2020 but still not reaching the level from 2019.

Sharp decline in exports as well as decline in personal consumption had a significant impact on the decline in GDP in 2020, while in 2021 the opposite is expected. Namely, the estimated decline in exports of goods and services in 2020 is 26.4 percent while it is expected to grow by 19.3 percent in 2021. The forecast for a decline in personal consumption for 2020 reaches 6.6 percent and for growth in 2021 it reaches 4.5 percent.

Import of goods and services is projected to fall in 2020 by 16.3 percent and rise in 2021 by 15 percent. Capital investment should increase to 7.2 percent, after falling by 5.2 percent in 2020. Government spending should increase by two percent in 2020 and by 2.2 percent in 2021.

According to the basic scenario of the CNB, it is not expected that the GDP will reach pre-crisis levels in 2021 but that it will happen in 2022.

According to the pessimistic scenario which assumes that the epidemiological situation will not be under control by the end of the first quarter of 2021 but that certain forms of economic closures will have to continue, the level of GDP from 2019 would not be reached until 2023. Therefore, the baseline scenario predicts the existence of certain epidemiological measures in the first quarter of 2021 and the pessimistic scenario expects the duration of those measures in some form throughout the first half of next year.

Risks for growth are balanced in this projection horizon, unlike previous projections in which negative risks prevailed, which materialised ultimately in the fourth quarter of 2020.

When it comes to the labour market, Croatia had a relatively slight decline of 1.5 percent in employment with a loss of about 50 thousand jobs in 2020 and accordingly a relatively slight recovery is expected next year with employment growth of 0.7 percent.

Furthermore, the average annual inflation rate could slow to 0.2 percent in 2020 and accelerate to one percent in 2021, primarily due to the recovery and rising in energy prices.

As for the current and capital account of the balance of payments, there was a significant reduction in the surplus in these accounts in 2020 which was influenced by sharp decline, primarily in exports. Due to the expected strong growth of exports in 2021, this surplus is expected to increase again to a level of about three percent of GDP, to which capital transactions in the form of stronger inflow of EU funds should also contribute.

Excess liquidity, which is defined as the difference between the balance in commercial banks' settlement accounts held with CNB and the amount that banks must maintain on these accounts according to the calculation of reserve requirement, is at the historically highest levels of about HRK 45 billion, which contributes significantly to maintaining favourable financing costs.

The growth of placements to corporates accelerated in 2020, while the growth of placements to individuals slowed down on an annual level. Further growth of placements to corporates is expected in 2021 while maintaining the growth of placements to individuals approximately at the level reached in 2020.

### **Financial result of the Bank**

Despite the described business environment, we evaluate the business in 2020 as successful; according to the audited annual financial statements, the Bank made a profit in 2020 in the amount of HRK 29,898

thousand or 32% higher than in the previous year. The realised profit after tax amounts to HRK 29,502 thousand resulting in a return on assets (ROA) of 1.1% and a return on equity (ROE) of 16.7%.

Significant increase in profit compared to that achieved in 2019 is a result of realised extraordinary income and expenses, i.e. the realised profit from operations that will not continue which amounts to HRK 9.9 million. The realised profit in this business segment relates mainly to the realised positive effects of the realised sale of part of property from the portfolio intended for sale.

In addition to achieving the planned level of profit from regular operations, in 2020 the Bank maintained previously achieved satisfactory degree of business efficiency. On the other hand, good credit risk management contributed to the amount of positive business result through approximately the same level of loan impairment costs.

The amount of realised profit represents a solid potential for the continuation of the Bank's increased lending activity in 2021, i.e. sufficient potential to support the planned loan growth to existing and new customers, primarily individuals and small and medium-sized enterprises.

In 2020 the credit activity of the Bank resulted in an increase in loans to other customers by 7% wherein the retail loan portfolio and the loan portfolio of the Republic of Croatia and local self-government remained at the level from the end of previous year and the portfolio of legal entities and small and medium-sized enterprises increased by 26%.

By implementing the measures set out in the Non-performing Loan Reduction Strategy, the Bank reduced this portfolio by 11% in 2020 while achieving an increased degree of coverage of this portfolio by allocated provisions.

In the conditions of continuously present high liquidity of the Bank, which is characteristic of the total banking industry for a longer period and which continues in the current period, during 2020 the Bank maintained and additionally increased (by approximately 10%) its investments in highly liquid debt securities of the Republic of Croatia. Due to disturbances caused by the COVID 19 pandemic, which in the short term had a negative impact on the market prices of this portfolio, the Bank reclassified this portfolio to a portfolio held at depreciated cost.

At the end of December 2020 the Bank's assets amounted to HRK 2,646,251 thousand. Compared to the stated level at the end of 2019, the assets recorded an increase at a nominal rate of 10%. The real growth rate was slightly lower at 9.4%.

**Customer deposits** amounted to HRK 2,367,157 thousand at the end of December, which is an increase of 10.3% when compared to the level recorded at the end of 2019. Continued period of low interest rates as well as their additional decrease during 2020 resulted in continuation of previously observed trend of a change of the maturity structure of the deposit base towards the decrease in time deposits with relatively high growth rates of deposits at sight (a vista). Time deposits recorded a decline in 2020 at a rate of 10% and deposits at sight (a vista) recorded an increase at a rate of 29%.

**Net interest income** amounted to HRK 50,568 thousand or 8% lower than in 2019; the decline was realised in the conditions of a fall in interest income by 11% and a fall in interest expenses at a rate of 29%. The decline in net interest income was a result of a continued decline in lending and deposit interest rates along with continuing decline in net interest margins.

**Net income from fees and commissions** amounted to HRK 16,314 thousand or 3% higher the amount of 2019. The growth is the result of the maintained level of income from fees and commissions with a simultaneous decrease in the level of expenses from fees and commissions of 5%.

**Items of other non-interest income and expenses relate mainly to:**

- Income from trading which amounted to HRK 10,461 thousand or 41% higher than the one realised in 2019;
- Unrealised loss from assets that are not actively traded with and which are valued at fair value through the Income statement in the amount of HRK 738 thousand, based on the fall in price of debt securities of the Republic of Croatia

**Administrative expenses including deposit insurance costs and depreciation costs** amounted to HRK 50,308 thousand, which was an increase by 1% when compared to 2019. The Bank's cost-to-income ratio was 65.7% which was a slight deterioration by approximately 3 percentage points when compared to previous year. Nevertheless, it can be said that this is still a satisfactory level of efficiency of the Bank's operations, considering primarily the Bank's size i.e. the classification of the Bank into the group of small banks in the Republic of Croatia.

**Expenses from impairments and provisions for losses** amounted to approximately HRK 6.4 million. The negative impact of the implemented impairment on the final result was thus approximately equal to that of 2019. When compared to 2019 the Bank reduced the level of non-performing loans by 11% or by HRK 18 million; the share of non-performing loans in total loans also decreased from 13.1% to 11%, with simultaneous increase in the degree of their coverage by allocated provisions from 59.4 to 68.7%.

The basic items of assets and liabilities are:

- **Highly liquid assets:** cash, deposits with CNB and other demand deposits amounted to HRK 824 million or 25% higher than at the end of 2019
- **Highly liquid assets:** bonds of the Republic of Croatia and local self-government, shares in money funds and treasury bills of the Ministry of Finance allocated to the portfolio at fair value through income statement and the portfolio at depreciated cost amounted to HRK 573 million at the end of December or 8% higher than at the end of 2019, with a realised share in total assets of approximately 22%
- **Loans and advances** amounted to HRK 1.186 million at the end of 2020 or 7% higher than at the end of 2019
- **Property, plant and equipment** amounted to HRK 25 million or 11% lower than 2019; the share of these assets in total assets was thus reduced in 2020 from 1.2% to 0.9%
- **Foreclosed assets and assets held for sale** amounted to HRK 26 million at the end of December or 61% lower than at the end of 2019; thus, the share of this item in total assets was significantly reduced – from 2.7% at the end of 2019 to 1% at the end of 2020
- **Capital of the Bank** amounted to HRK 206 million at the end of 2020 or 17% higher than at the end of 2019 and it accounted for 7.8% of the total resources of the Bank.

At the end of 2020, with the established level of regulatory capital in the amount of HRK 215.2 million, the Bank shows the capital adequacy ratio of **20.55%** which is a level that exceeds to a satisfactory extent both the legal and internally established minimum rate of this indicator, and together with available liquid assets comprises sufficient potential to support the planned lending activity in 2021.

Through the continuous structured offerings at competitive conditions, the Bank achieved a satisfactory increase in loan portfolio in the past year, especially housing loans to individuals which increased by 11% and loans for financing of current operations of small and medium-sized enterprises the base of which increased by 26%. Cooperation with local self-government units also continued through dedicated credit lines as well as cooperation with the Ministry which is related to subsidized housing loans to individuals and which has been ongoing since 2017 and is planned to continue in 2021.

There was a further increase in number of transaction accounts of individuals and corporates as well as mobile and Internet banking users, both in retail and corporate segment, with the expected consequential effect of further gradual migration of transactions from branches. In order to ensure the greatest possible availability of products and services and to keep up with the banking trends, the Bank continued to invest in new technologies and solutions.

### **Risk management**

We appreciate that the good and responsible risk management also contributed to the achievement of a satisfactory and positive business result in 2020. Given its business model and risk profile, the Bank improves continuously the process of monitoring and controlling all risks to which it is exposed. Within these risks, the focus of operations in the previous year remained on the most significant risks: credit risk, then market risks and, as usual, liquidity risk and operational risk.

In addition to the stable result from operating business, the results of successful risk management are also visible in the fact of the Bank's level of exposure to all types of risks and which exposures continuously move within the legal and internally defined limits. The degree of exposure to all major risks was assessed as a moderate one with an assessment of a stable movement direction as well as an acceptable management system for each of them. With a continuously high level of liquidity, during 2020 the Bank saw additional positive developments in the area of credit risk exposure visible through the reduced levels and share of non-performing loans, through the reduction of the level and share of overdue loans as well as through the additional reduction of concentration levels and greater diversification within credit risk exposure. The coverage of non-performing placements with allocated provisions was further increased in 2020.

The description and presentation of the Bank's exposure to these risks are detailed in the Notes to the financial statements for 2020.

### **Own shares**

The Bank did not repurchase its own shares.

### **Other important information**

#### **COVID 19**

The Bank's business in 2020 was certainly also marked by a pandemic caused by the COVID 19 virus. In the initial phase the pandemic required the implementation of all recommended and mandatory measures aimed primarily to protecting the health of employees and the customers of the Bank as well as necessary changes in work organisation of employees and business segments to ensure continuity of all lines of the Bank's business. Shortly after, the new circumstances indicated the need to define support and assistance measures for customers whose businesses were significantly disrupted due to the new situation.

The main measure of support and assistance to the Bank's customers, both those from the corporate sector and those from the retail segment was granting of temporary moratorium on loan repayments in the duration of 3 months. This was granted to customers who requested the moratorium. The customers were given the option of moratorium on the repayment of principal and interest or the principal only. The use of this measure was also possible after the expiration of the approved initial moratorium of 3 months for the next three months. The said measure is still in implementation in the current period but in volumes that are 4.2 smaller than the initially approved given the fact of stabilised operations or resumed monthly income of a significant part of customers and related to the positive effects of easing measures to restrict operations from May onwards.

The Bank approved moratoriums on repayment for longer periods – 6 or 12 months for the activities most affected by the pandemic (tourism and transport with accompanying activities) which have a relatively low share in the total portfolio of the Bank.

In accordance with the Regulator's guidelines and when implementing this measure of support to customers, the Bank used the option of preferential treatment of such exposures and did not reclassify them into the category of non-performing placements.

The Bank also approves the moratorium measure to a portion of users of non-earning placements, and in doing so, the precautionary principle was accepted which kept the same placements in the category of partially recoverable placements.

We believe that there is an unquestionably negative impact of the pandemic the operations of business entities, both globally and nationally, on the banking industry as a whole and thus on the Bank's result in 2020. However, the Bank uses two measures in taking into account the above circumstances:

- Continuation of intensified monitoring of the clients' creditworthiness as to determine whether their short-term financial difficulties have possibly escalated into long-term ones, caused either by the pandemic or any other reason, that will result in reclassification into non-performing placements
- Modified model of the so-called expected losses; taking into account the published economic forecasts of key macroeconomic parameters that are built into the model and redefining i.e. introducing stricter indicators to determine a significant increase in credit risk.

However, overall potential negative effect of possible reclassification of some placements that retained the status of the moratorium in the current period does not indicate so far a major negative impact or material significance as for the planned result or the planned capital for 2021.

### **Plans and expectations of the Bank for 2021**

The Bank has defined a business plan for 2021 with basic goals and measures for achieving them while respecting the macroeconomic forecasts for 2021 as stated above, the well-known capital position of the Bank in 2021 as well as the financial one which is characterised by a high degree of liquidity and continuous surpluses. The fact that no significant changes in prudential regulations are expected in the current year was taken in consideration when defining the business plan.

In addition to retaining the business model, the business plan for 2021 accepts the strategy set out in the Business Plan for the period until 2025 which is based on the following basic management principles:

- Commitment to clients in order to maintain and gain loyalty of existing and new clients respectively
- Equal focus on doing business with corporate as well as individual clients with the aim of achieving and maintaining better risk diversification
- Maintaining the existing dispersed sales network in the local, regional market in which the Bank needs to further strengthen its market position, which also proves to be a good infrastructure basis for obtaining primary sources of financing
- Preferring a stable deposit base that will support enhanced lending activity to clients with whom the Bank has established or will establish a comprehensive business relationship
- Continuous change in the structure of the balance sheet towards a gradual increase in interest-bearing assets and an increase in operating profit and total profit which will be the sole generator of credit growth
- Responsible management of all risks and maintenance and continuous improvement of credit risk monitoring and control within the credit risk

Activities and measures that will be taken by the Bank in 2021 will be aimed at achieving the following goals:

- Increase in total net operating income
- Credit growth
- Further decrease in non-performing loans
- Further improving the level of business efficiency

Basic settings of the financial plan are:

- Asset change rate: +5.3%
- Deposit change rate: +5.9% with expected continuing trend of increasing sight deposits and decreasing time deposits
- Net loans to other customer change rate: +7.7%

There is a justified expectation for the Bank, its clients and for the wider local community that the Bank will continue to nurture the brand of the regional bank, which it has built in more than 65 years, arising from the fact that the new majority owners of the Bank are locally based. In addition to structured offerings to clients under competitive and attractive financial conditions, both for loans and deposits, the Bank's primary interest will continue to be to encourage domestic, especially regional, economic recovery in an effort to further strengthen its regional presence.

I would like to thank our clients and shareholders for their trust as well as the members of the Supervisory Board for their continuous support and cooperation.

Also, I wish to express my thanks to the employees whose professionalism and dedicated work have unquestionably contributed to the successful operations of the Bank in the past year.

Karlovac, 12 February 2021

**PRESIDENT OF THE MANAGEMENT BOARD**

**Željka Surač**



**KARLOVAČKA BANKA**  
**Joint-stock company**  
**Supervisory Board**

In 2020 the Supervisory Board of Karlovačka banka d.d. was composed of: Nedjeljko Strikić, President Bernarda Ivšić, Deputy President and Željko Tintor, Ana Žabčić and Mato Crkvenac as Members.

The Supervisory Board convened regularly and held in total 27 meetings in 2020, 26 of which were held by fax.

In addition to making decisions that are within the responsibility of the Supervisory Board under the provisions of the Companies Act, the Credit Institutions Act and the Bank's Statute, the activities of the Supervisory Board have been directed, in cooperation with the Bank's Management Board, to the development of the Bank's business and implementation of efficient and reliable management system of the Bank.

Furthermore, the Supervisory Board has been acquainted with all significant ongoing court cases and estimates regarding provisions thereof as well as with their estimated outcome.

During 2020 the Supervisory Board supervised the Management Board's management of the Bank's operations and established that the Bank had operated in accordance with the Law and Acts of the Bank as well as with the decisions of the General Assembly.

Also, The Supervisory Board was regularly briefed on the operations of the Risk and Audit Board and monitored its work on all relevant counts from their domain.

The Supervisory Board confirms that the annual financial statements have been prepared in accordance with the Bank's records and that they show true and correct property status and business condition of the Bank.

The Supervisory Board agrees with the proposed Decision on profit allocation which will be submitted to the General Assembly of the Bank.

Karlovac, 12 February 2021

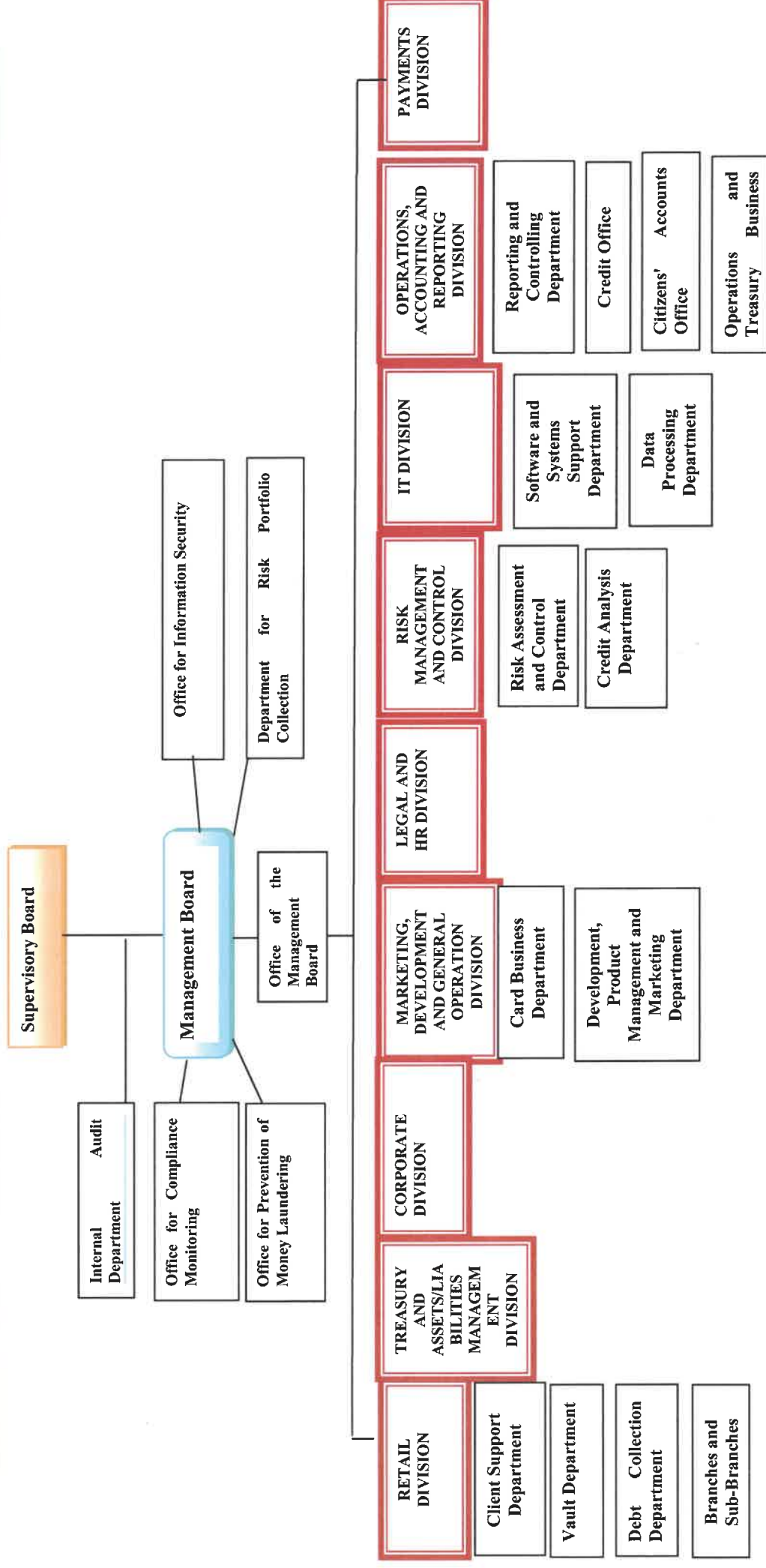


President of the Supervisory Board

mr.sc. Nedjeljko Strikić

Management and Corporate Governance

Organisational chart of Karlovačka banka d.d.



## Correspondent Banks – Account Relationships

**Standing Settlement Instructions for KALCHR2X** (CP = Commercial Payments FX = Foreign Exchange MM = Money Market)

AUD	<b>Privredna banka Zagreb dd,</b>	PBZG HR 2X	IBAN:	CP
	Zagreb		HR2023400091990016076	
AUD	<b>Zagrebacka banka dd,</b>	ZABA HR 2X	IBAN:	FX MM
	Zagreb		HR3423600001900000547	
CAD	<b>Privredna banka Zagreb dd,</b>	PBZG HR 2X	IBAN:	CP
	Zagreb		HR2023400091990016076	
CAD	<b>Zagrebacka banka dd,</b>	ZABA HR 2X	IBAN:	CP FX MM
	Zagreb		HR3423600001900000547	
CHF	<b>Privredna banka Zagreb dd,</b>	PBZG HR 2X	IBAN:	CP
	Zagreb		HR2023400091990016076	
CHF	<b>Raiffeisenbank Austria dd,</b>	RZBH HR 2X	IBAN:	CP FX MM
	Zagreb		HR6024840081900001513	
CHF	<b>Zagrebacka banka dd,</b>	ZABA HR 2X	IBAN:	CP FX MM
	Zagreb		HR3423600001900000547	
CZK	<b>Zagrebacka banka dd,</b>	ZABA HR 2X	IBAN:	CP FX MM
	Zagreb		HR3423600001900000547	
DKK	<b>Privredna banka Zagreb dd,</b>	PBZG HR 2X	IBAN:	CP
	Zagreb		HR2023400091990016076	
DKK	<b>Zagrebacka banka dd,</b>	ZABA HR 2X	HR3423600001900000547	CP FX MM
	Zagreb			
EUR	<b>Banco Bilbao Vizcaya</b>	BBVA ES MM	IBAN:	CP
	<b>Argentaria SA, Madrid</b>		ES3801820061710080109344	
EUR	<b>Erste Group Bank AG,</b>	GIBA AT WG	IBAN: AT712010040331963300	CP FX MM
	Vienna			
EUR	<b>Intesa Sanpaolo SpA, Milan</b>	BCIT IT MM	IBAN:	CP
			IT42J0306940101100100004122	
EUR	<b>Karlovacka Banka dd,</b>	KALC HR 2X	Member of SEPA payments	CP
	Karlovac			

**KARLOVAČKA BANKA d.d. KARLOVAC**  
**ANNUAL FINANCIAL STATEMENTS FOR 2020**

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EUR	<b>Karlovacka Banka dd,</b> Karlovac	KALC HR 2X	IBAN: HRPKALC2400008, T2HR	CP	FX	MM
EUR	<b>Privredna banka Zagreb dd,</b> Zagreb	PBZG HR 2X	IBAN: HR2023400091990016076	CP		
EUR	<b>Raiffeisenbank Austria dd,</b> Zagreb	RZBH HR 2X	IBAN: HR4524840081900001492	CP	FX	MM
EUR	<b>UniCredit SpA, Milan</b>	UNCR IT MM	IBAN: IT40L0200832978000000000925	CP	FX	MM
EUR	<b>Zagrebacka banka dd,</b> Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
GBP	<b>Privredna banka Zagreb dd,</b> Zagreb	PBZG HR 2X	IBAN: HR2023400091990016076	CP		
GBP	<b>Zagrebacka banka dd,</b> Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
HRK	<b>Karlovacka Banka dd,</b> Karlovac	KALC HR 2X		CP		
JPY	<b>Zagrebacka banka dd,</b> Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
NOK	<b>Zagrebacka banka dd,</b> Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
SEK	<b>Privredna banka Zagreb dd,</b> Zagreb	PBZG HR 2X	IBAN: HR2023400091990016076	CP		
SEK	<b>Skandinaviska Enskilda Banken AB, Stockholm</b>	ESSE SE SS	IBAN: SE5650000000052018512463	CP	FX	MM
SEK	<b>Zagrebacka banka dd,</b> Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
USD	<b>Raiffeisenbank Austria dd,</b> Zagreb	RZBH HR 2X	IBAN: HR8224840081900001505		FX	MM
USD	<b>Zagrebacka banka dd,</b> Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547		FX	MM
USD	<b>Erste and Steiermaerkische bank dd,</b> Rijeka	ESBCHR22	IBAN: HR4724020061970000118	CP		

**Branch Network and Contact Details**

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## **RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS**

The Management Board of Karlovačka banka d.d., Karlovac, Ivana Gorana Kovačića 1 ("the Bank") is responsible for ensuring that the annual financial statements for the year 2020 are prepared in accordance with the Accounting Act (Official Gazette No 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 47/2020) and the International Financial Reporting Standards to give true and fair view of the financial position, business results, changes in equity and cash flows of the Bank for that period.

After making enquiries, the Management Board of the Bank reasonably expects the Bank to have adequate resources to continue to operate in the foreseeable future. Accordingly, the Management Board of the Bank prepared the annual financial statements using the going concern basis of accounting.

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

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting standards;
- giving reasonable and prudent judgments and estimates;
- preparation of annual financial statements using the going concern basis of accounting, unless it is inappropriate to presume so.

In accordance with the Accounting Act, the Management Board of the Bank is responsible for preparation and contents of the Statement of the Management Board on the Bank's position as well as the Statement on the Corporate Governance Code.

Financial statements on pages 25-96 and the forms on pages 98-106 with accompanying adjustments on pages 107-113, which have been prepared in accordance with the Croatian National Bank's Decision on the structure and content of annual financial statements of credit institutions (Official Gazette No. 42/2018 and amendments thereof in Official Gazette No. 122/2020), have been approved by the Management Board on 12 February 2021 for submitting to the Supervisory Board and signed below.

On behalf of the Management Board:

  
\_\_\_\_\_  
Željka Surač  
President of the Management Board

  
\_\_\_\_\_  
Marino Rade  
Member of the Management Board

Karlovačka banka d.d.  
Ivana Gorana Kovačića 1  
47000 Karlovac  
Republic of Croatia  
Karlovac, 12 February 2021

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS OF KARLOVAČKA BANKA d.d. KARLOVAC**

#### **Report on the Audit of the Annual Financial Statements**

##### **Qualified opinion**

We have audited the annual financial statements of Karlovačka banka d.d. (the 'Bank') which comprise the Statement of financial position (the Balance sheet) as at 31 December 2020, the Income Statement and the Statement of Other Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity for the year then ended as well as the accompanying Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, except for effects of the matter described in our report in the basis for qualified opinion section, the accompanying annual financial statements give true and fair presentation of the Bank's financial position as at 31 December 2020, its financial performance and cash flows for the year then ended in accordance with the Accounting Law and the International Financial Reporting Standards (IFRSs) as established by the European Commission and published in the Official Gazzette of the European Union.

##### **Basis for qualified opinion**

As stated in Note 3.10, the Bank owned 100% of the company Rezidencija Mejaši d.o.o. Karlovac as at 31 December 2020 and 31 December 2019. In accordance with the Credit Institutions Act, this company does not meet the conditions for consolidation within the Karlovačka banka d.d. Group. Accordingly, the Bank is not obliged to include the stated company in the report of the group of credit institutions which it submits to the Croatian National Bank pursuant to the Article 163, Paragraph 1, Item 1 of the said Act. Accordingly, the Bank did not prepare consolidated financial statements.

However, the Bank applies International Financial Reporting Standards as a framework for the preparation of financial statements. In accordance with the International Financial Reporting Standard IFRS 10 - Consolidated Financial Statements, the Bank is required to prepare consolidated financial statements in case of controlling a subsidiary. We were unable to determine with certainty the effects that the consolidation of the said company would have on the consolidated financial statements of the Bank.

We conducted our audit in accordance with the Accounting Act, the Audit 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 qualified opinion.

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**INDEPENDENT AUDITOR'S REPORT - continued****Report on the Audit of the Annual Financial Statements - continued****Highlighting issues**

We refer to Note 34 that states court proceedings referring to the Bank.

In the group of cases in which the Bank has been sued two proceedings stand out which proceedings have been initiated by the Bank's shareholders to challenge the decisions of two General Assembly Meetings of the Bank:

1. Decision of the General Assembly held on 10 February 2014 which was the decision to reduce the share capital by HRK 92,642 thousand, the decision to exclude the priority right to subscribe for new shares, the decision to increase the share capital by HRK 72,734 thousand and the decision on partial change of the Statute of the Bank.

In this case a final verdict was issued in favour of the plaintiff against which the Bank submitted a revision to the Supreme Court of the Republic of Croatia as an extraordinary legal remedy.

2. Decision of the General Assembly held on 2 July 2014 which was the decision on the confirmation of the decisions of the General Assembly held on 10 February 2014, the decision on the increase in share capital by HRK 40,000 thousand and the decision on partial change of the Statute of the Bank.

In this case a final verdict was issued in favour of the Bank. As an extraordinary legal remedy, the plaintiff filed a motion for revision with the Supreme Court. The Bank is undertaking all available legal actions to protect the interest of the Bank and the interest of other shareholders. It is not possible to assess with certainty the duration and the outcome of these proceedings.

Our opinion has not been modified in this regard.

**Key audit matters**

Key Audit Matters are those matters that were, in our professional judgment, of utter significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matters described in the Basis for qualified opinion section and the Key audit matters section, we have determined that the issues below will be the key audit matters we need to report in our independent auditor's report.

Key audit matter	How the audit addressed the key audit matter
<p><u>Impairments and provisions for loans and advances to customers</u></p> <p>We refer to Notes 3.9. and 3.18. containing policies for recognition and subsequent valuation of financial assets as well as accounting estimates and judgments in applied accounting policies, Notes 14 and 24 to the financial statements which show provision costs and exposure of the Bank in terms of granted loans and advances and Note 45 which displays the Bank's total exposure to credit risk.</p>	<p>During the audit we have gained understanding of the Bank's processes related to performed impairments and estimation of provisions for granted loans by:</p> <ul style="list-style-type: none"> <li>- carrying out audit procedures to ensure the existence and effectiveness of internal controls in the process of granting loans, monitoring loan repayments, determining loan losses,</li> <li>- analyzing the adopted model of estimation and calculation of impairment losses by the Bank, with additional clarification of the process by talking to key personnel in the Bank.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT - continued****Report on the Audit of the Annual Financial Statements - continued****Key audit matters - continued**

Key audit matter	How the audit addressed the key audit matter
<p>In the Statement of financial position (Balance sheet) at 31 December 2020 the net value of loans and advances to customers is shown in the amount of HRK 1,186,602 thousand which represents 44.8% of the total assets of the Bank. Value adjustments amount to HRK 109,981 thousand representing 4.2% of the Bank's total assets. The estimate of the amount of losses and provisions includes significant estimates and assumptions of the Bank's management. The level of adjustments depends on the estimated time and amount of future cash flows, the assumption of the borrower's financial position, the valuation of collateral, the assumption of the time in which the collateral is to be realised and so on. Impairments and value adjustments are recognised on the basis of incurred loan losses and on the basis of expected loan losses. Estimate of impairment losses in the loan portfolio is performed according to the Bank's adopted methodology based on the effective IFRSs and the Croatian National Bank's regulation – Decision on the classification of exposure into risk groups and the method of determining loan losses (Official Gazette No. 114/2017, 110/2018).</p> <p>Impairments of loans are considered to be the key audit matter due to the complexity of appraisal process and the significant involvement of key management's judgement when assessing losses.</p>	<p>We have tested the application of the valuation model to a selected sample of loans of higher individual values in relation to the set criteria: the debtor's timeliness in meeting their obligations towards the Bank, the debtor's financial position, the quality and value of the collateral with the estimation of time in which the collateral is to be realised when calculating the provision. We have analysed the calculation of the provisions and the bookkeeping of impairments and provisions.</p> <p>In addition, the Bank monitors and identifies loan losses in the portfolio of small loans. Exposures from the portfolio of small loans which are not secured by adequate collateral are evaluated solely on the basis of timeliness in settling liabilities towards the Bank. If there are adequate insurance instruments, the assessment of loan losses is based on two criteria: the debtors' timeliness in meeting their obligations and monitoring the value and the viability of the collateral.</p> <p>We have analysed and tested the established system for monitoring the number of days from maturity to the settlement of liabilities towards the Bank as well as the collateral valuation system to the selected sample of these loans.</p> <p>In accordance with IFRS 9 – Financial instruments and in addition to calculating provisions for incurred loan losses, the Bank performs impairment of financial assets and recognition of expected loan losses.</p> <p>The Bank calculates expected loan losses on the basis of an internally developed model based on IFRS 9 – Financial instruments and the CNB's regulation – Decision on classification of exposure into risk groups and the method of determining loan losses.</p> <p>We have analysed the established model and the adopted methodology for impairment and provisions that the Bank carried out on these exposures.</p>

## **INDEPENDENT AUDITOR'S REPORT - continued**

### **Report on the Audit of the Annual Financial Statements - continued**

#### **Other information in the Annual Report**

The Management Board is responsible for the other information. The other information comprises the information included in the annual report, but does not include the annual financial statements and our independent auditor's report.

Our opinion on the Annual Financial Statements does not cover the other information, except to the extent expressly 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 by expressing our beliefs.

In connection with our audit of the Annual Financial Statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the Annual Financial Statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we conclude, based on the work we have performed, that there is a material misstatement of this other information, then we are required to report that fact. In this regard, we refer to the matter described in the section entitled Basis for qualified opinion and the impact of the said matter on the same items in the report of the Management Board.

#### **Responsibilities for the Annual Financial Statements of the Management Board and persons in charge of management**

The Management Board is responsible for the preparation of the Annual Financial Statements which give true and fair presentation in accordance with IFRSs as established by the European Commission and published in the Official Hazzette of the European Union and for such internal controls as the Management Board determines are necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Financial Statements, the Management Board 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.

Persons in charge of management are responsible for overseeing the financial reporting process established by the Bank.

#### **Auditor's Responsibilities 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 independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence, individually or in the aggregate, the economic decisions of users taken on the basis of those Annual Financial Statements.

## **INDEPENDENT AUDITOR'S REPORT - continued**

### **Report on the Audit of the Annual Financial Statements - continued**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 the risk resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.
- obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.  
If we conclude that a material uncertainty exists, we are required to draw attention in our Independent auditor's report to the related disclosures in the 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 Independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the Annual Financial Statements, including disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with persons in charge of management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including and related to any significant deficiencies in internal controls that we identified during our audit.

**INDEPENDENT AUDITOR'S REPORT - continued****Report on other legal requirements****Report based on the requirements of the Regulation (EU) No. 537/2014**

1. We were appointed by the General Assembly of the Bank on 9 April 2020 to perform the audit of Annual Financial Statements for 2020.
2. Our uninterrupted engagement has lasted for three years relating to periods ended 31 December 2018, 2019 and 2020.
3. In addition to the issues we included in our Independent auditor's report as key audit matters within the Report on the Audit of the Annual Financial Statements, we have nothing to report in relation to the point (c) of the Article 10 of the Regulation (EU) No. 537/2014.
4. With our statutory audit of the Annual Financial Statements of the Bank for 2020 we are able to detect irregularities, including fraud under Section 225, *Response to non-compliance with the law and regulations* of the IESBA Code of conduct which requires that during the audit we observe whether the Bank has complied with the laws and regulations which are generally recognized to have a direct impact 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 impact on the determination of significant amounts and disclosures in its Annual Financial Statements but the observance of which may be crucial for the operational aspects of the Bank's business, its ability to continue as a going concern or to avoid significant penalties.  
Except in the event that we encounter or know of non-compliance with any of the afore mentioned laws or regulations that is obviously insignificant, in our judgement of its content and impact, whether financial or otherwise for the Bank, its shareholders and the general public, we are obliged to notify the Bank and seek that such case be investigated and appropriate measures taken to resolve the irregularities and to prevent the occurrence of such irregularities in the future. If as at the audited Balance sheet date the Bank fails to correct the irregularities that formed incorrect displays in the audited annual financial reports and which are cumulatively equal to or greater than the amount of significance for the financial statements as a whole, we are then required to modify our opinion in the Independent auditor's report.
5. Our audit opinion is consistent with an additional report to the Bank's Risk and Audit Board drawn up in accordance with the provisions of the Article 11 of the Regulation (EU) No. 537/2014.
6. During the period between the initial date of the audited Annual Financial Statements of the Bank for the year 2020 and the date of this report, we did not provide the Bank with prohibited non-audit services and in the business year prior to the aforementioned period we did not provide services for the design and implementation of internal control or risk management processes related to preparation and/or control of financial information or the design and implementation of technological systems for financial information and during the course of the audit we have maintained independence in relation to the Bank.
7. We provided no other services to the Bank, apart from the statutory audit.

**INDEPENDENT AUDITOR'S REPORT - continued****Report based on the requirements of the Accounting Act**

1. In our opinion, based on the work we performed during the audit, the information contained in the accompanying Report of the Management Board of the Bank for 2020 is in line with the accompanying Annual Financial Statements of the Bank for 2020.
2. In our opinion, based on the work we performed during the audit, the accompanying Report of the Management Board of the Bank for 2020 has been prepared in accordance with the Accounting Act.
3. Based on the knowledge and understanding of the Bank's operations and its environment acquired in the course of the audit, except for the impact of the matter stated in the Basis for qualified opinion section, we have not found any significant misstatements in the accompanying Report of the Management Board of the Bank.

**Other legal and regulatory requirements**

Pursuant to the Decision on the Structure and Content of Annual Financial Statements of Credit Institutions (Official Gazette No. 42/2018 and 122/2020), (hereinafter: 'the Decision'), the Management Board of Karlovačka banka d.d. has prepared the forms as presented on pages 98 to 106, which comprise the Balance Sheet of the Bank as at 31 December 2020, the Income Statement, the Statement of other comprehensive income, the Statement of changes in equity and the Cash Flow Statement of the Bank for the year then ended, as well as information on the reconciliation to the financial statements of the Bank. Preparation of these forms and information on the reconciliation is the responsibility of the Management Board and they do not represent components of these financial statements but rather a requirement specified by the Decision. The financial information in the forms has been derived correctly in all significant determinants from the audited financial statements of the Bank presented on pages 25 – 96 and from the business books of the Bank.

The partner engaged in the audit resulting in this Independent auditor's report is Marija Maltar.

Certified auditor:  
Marija Maltar, dipl. oec.




Director:  
Stjepan Šargač, dipl. oec.  
Certified auditor



Varaždin, 12 February 2021

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**KARLOVAČKA BANKA d.d.**  
**INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**For the year ended 31 December 2020**

Description	Note	2020. HRK ,000	2019. HRK ,000
Interest income	4	56,264	62,891
Interest expense	5	(5,696)	(8,065)
<b>Net interest income</b>		<b>50,568</b>	<b>54,826</b>
Fees and commissions income	6	22,922	22,834
Fees and commissions expense	7	(6,608)	(6,932)
<b>Net income from fees and commissions</b>		<b>16,314</b>	<b>15,902</b>
Profit from financial activities	8	9,699	12,498
Net foreign exchange gains (expenses)	9	(279)	(37)
Other income	10	24,554	2,733
<b>Total other income</b>		<b>33,974</b>	<b>15,194</b>
General administrative and other operating expenses	11,12,13	(64,597)	(56,767)
Impairments and provisions	14	(6,361)	(6,536)
<b>Total other expenses</b>		<b>(70,958)</b>	<b>(63,303)</b>
<b>Profit before tax</b>		<b>29,898</b>	<b>22,619</b>
<b>Income tax</b>	15	<b>(396)</b>	<b>(1,726)</b>
<b>Profit/ (loss) for the year</b>		<b>29,502</b>	<b>20,893</b>
<b>Profit/(loss) per share in HRK</b>	16	<b>1,68</b>	<b>1,19</b>
<b>Other comprehensive profit / (loss)</b>			
<b>Other comprehensive profit (loss) for the year, net of tax</b>		-	-
<b>TOTAL COMPREHENSIVE PROFIT/(LOSS)</b>		<b>29,502</b>	<b>20,893</b>
<b>Profit/(loss) per share in HRK</b>	16	<b>1.68</b>	<b>1.19</b>

Significant accounting policies and other notes set out on pages 29 to 96 form an integral part of these financial statements

**KARLOVAČKA BANKA d.d.**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2020**

Description	Note	31.12.2020. HRK ,000	31.12.2019. HRK ,000
<b>ASSETS</b>			
Cash	18	663,658	446,795
Receivables from the Croatian National Bank	19	141,385	163,276
Placements with banks	20	19,314	48,649
Financial assets through other comprehensive profit	21	150	150
Financial assets at depreciated cost	22	561,537	303,584
Financial assets at fair value through income statement and assets not actively traded with ( FOB and FOP)	23	11,447	228,441
Loans and advances to customers	24	1,186,602	1,112,373
Investments in subsidiaries	3,10	-	-
Property, plant and equipment	25	24,999	27,985
Intangible assets	26	105	196
Foreclosed assets and assets intended for sale	27	25,739	66,080
Other assets	28	11,315	7,350
<b>Total assets</b>		<b>2,646,251</b>	<b>2,404,879</b>
<b>LIABILITIES</b>			
Liabilities to banks	29	1	173
Demand deposits	30	1,443,229	1,123,049
Term deposits	31	923,928	1,023,123
Loan liabilities	32	2,072	3,726
Other liabilities	33	12,898	15,529
Provisions	34	3,730	8,425
Hybrid instruments	35	53,837	53,800
<b>Total liabilities</b>		<b>2,439,695</b>	<b>2,227,825</b>
<b>CAPITAL</b>			
Share capital	36	176,678	176,678
Profit /(Loss) for the year		29,502	20,893
Reserves / (Transferred loss)		376	(20,517)
<b>Total capital</b>		<b>206,556</b>	<b>177,054</b>
<b>Total liabilities and capital</b>		<b>2,646,251</b>	<b>2,404,879</b>

Significant accounting policies and other notes set out on pages 29 to 96 form an integral part of these financial statements

**KARLOVAČKA BANKA d.d.**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2020**

Description	Share capital	Own shares	Fair value reserves of assets through other comp.income	Capital gain	Reserves			Retained profit / Transferred loss	Profit for the year	Total
					Legal reserves	Other reserves				
	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
Balance as at 31 December 2018	176,678	0	0	0	0	0	(33,686)	13,169	156,161	
Profit allocation	0	0	0	0	0	0	13,169	(13,169)	0	0
Increase in share capital	0	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0	0
Other comprehensive income	0	0	0	0	0	0	0	0	0	0
Loss for the period	0	0	0	0	0	0	0	20,893	20,893	
Balance as at 31 December 2019	176,678	0	0	0	0	0	(20,517)	20,893	177,054	
Profit allocation	0	0	0	0	0	376	20,517	(20,893)	0	0
Increase in share capital	0	0	0	0	0	0	0	0	0	0
Decrease in share capital	0	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0	0	29,502	29,502	
Balance as at 31 December 2020	176,678	0	0	0	0	376	0	29,502	206,556	

Significant accounting policies and other notes set out on pages 29 to 96 form an integral part of these financial statements

**KARLOVAČKA BANKA d.d.**  
**CASH FLOW STATEMENTS – INDIRECT METHOD**  
**For the year ended 31 December 2020**

Description	2020. HRK ,000	2019. HRK ,000
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
(Loss)/ Profit before tax	29,898	22,619
<i>Adjustment to net cash assets from operating activities</i>		
Depreciation	4,354	4,523
Loan impairments	9,778	5,450
Impairments of other assets	(305)	143
Provisions for court disputes and employees	(3,836)	370
Impairments of property, plant and equipment and foreclosed assets	688	1,937
Other impairments and provisions (net)	36	(1,364)
(Increase) / Decrease in receivables from CNB	21,921	(5,835)
(Increase) in placements with banks	8,597	3,379
(Increase) in loans and advances to customers	(84,007)	(6,600)
(Increase) in financial assets at depreciated cost	(259,016)	(83,895)
Decrease /(Increase) in financial assets at fair value through income statement	216,994	(13,791)
(Increase)/Decrease in other assets	(3,657)	4,349
Increase/(Decrease) in liabilities to financial institutions	(172)	130
Increase in demand deposits	320,188	211,076
Increase / (Decrease) in term deposits	(99,197)	(82,444)
(Decrease)/increase in other liabilities	(2,982)	(5,359)
Paid income tax	(396)	(1,726)
<b>Net cash flow from operating activities</b>	<b>158,886</b>	<b>52,962</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment and intangible assets	(1,264)	(2,517)
Decrease in foreclosed assets	39,653	3,092
Other changes	379	856
<b>Net cash flow from investing activities</b>	<b>38,768</b>	<b>1,431</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
(Decrease) in loan liabilities	(1,653)	(2,070)
(Decrease)/Increase in hybrid instruments	37	(2)
<b>Net cash flow from financial activities</b>	<b>(1,616)</b>	<b>(2,072)</b>
<b>Net change in cash and cash equivalents</b>	<b>196,038</b>	<b>52,321</b>
<b>Cash and cash equivalents at year beginning (note 38)</b>	<b>482,827</b>	<b>430,506</b>
<b>Cash and cash equivalents at year end (note 38)</b>	<b>678,865</b>	<b>482,827</b>

Significant accounting policies and other notes set out on pages 29 to 96 form an integral part of these financial statements

## **GENERAL INFORMATION**

### **1.1. Legal framework and activities**

Karlovačka banka d.d. Karlovac ("the Bank") is a joint stock company established in 1989 by the Decision of the General Assembly. The Bank was registered at the Commercial Court in Zagreb, Permanent Office in Karlovac under registration number MBS 020000334 (OIB/PIN 08106331075). The Bank's seat is located in Karlovac, Ivana Gorana Kovačića 1.

The principal activities of the Bank include receiving deposits and other repayable funds, granting credits and loans and issuing guarantees and other bank warranties.

The Bank's share capital as at 31 December 2020 amounted to HRK 176,678 thousand which is divided into 17,570,409 shares, of which 17,559,585 are ordinary shares with nominal value of HRK 10 and 10,824 are preferred shares with nominal value of HRK 100. Pursuant to the Decision of the General Assembly dated 14 December 2020 all the shares of the Bank that had been listed on the Zagreb Stock Exchange were withdrawn from the regulated market.

The Bank's shareholders as at 31 December 2020 and 31 December 2019 were as follows:

Shareholder	31.12.2020. %	31.12.2019. %
Marko Vuković	44.45	37.56
Ivan Žabčić	44.45	37.56
Zagreb Archdiocese-Archdiocesan See	-	7.69
Marijan Šarić	-	4.01
Pinjuh Jakov	1.75	1.75
Stanić Miro	1.75	1.75
Sandi Šola	1.69	1.66
Paron d.o.o.	-	0.96
Guerrero Devlahovic Jaime Ivan	0.65	0.65
Projekt Mejaši	0.34	0.34
Croatian Handball Association	0.32	0.32
Croatian Veterans' Fund	-	0.31
Gašpar Ante	0.30	0.20
Dragović Tatjana	0.25	0.25
Dario Šimić	-	0.30
Other shareholders	4.05	4.69
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>

## **1.2. Management Bodies of the Bank**

The Bank's management bodies are: the General Assembly, the Supervisory Board and the Management Board.

As at 31 December 2020 the Bank's management bodies were as follows:

### **GENERAL ASSEMBLY**

Nedjeljko Strikić      President since 2 July 2014

### **SUPERVISORY BOARD**

Nedjeljko Strikić      President since 16 February 2018  
 Bernarda Ivšić      Deputy president since 16 February 2018  
 Željko Tintor      Member since 16 February 2018  
 Ana Žabčić      Member since 16 February 2018  
 Mato Crkvenac      Member since 16 February 2018

### **MANAGEMENT BOARD**

Željka Surač      President since 6 March 2015  
 Marino Rade      Member since 22 April 2014

The President and the Members of the Management Board represent the Bank individually and independently.

The Bank's operations are managed by the Management Board.

As at 31 December 2020 the Bank had 166 employees (31 December 2019: 169 employees). The qualification structure of employees as at 31 December 2020 and 31 December 2019 was as follows:

DESCRIPTION	Number of employees	Number of employees
	31.12.2020.	31.12.2019.
PhD	1	1
Master's degree	2	2
University degree	76	73
College degree	12	13
Secondary school	75	80
<b>TOTAL</b>	<b>166</b>	<b>169</b>

As at 31 December 2020 the Bank operated through the Central Office in Karlovac, branches in Zagreb and Rijeka and 10 sub-branches and one office: Central Office, sub-branch Vladka Mačeka with office in Draganići, sub-branch Tržnica, all located in Karlovac and sub-branches in the following cities: Jastrebarsko, Duga Resa, Ogulin, Ozalj, Slunj, Žakanje i Topusko.

**BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS**

**2.1. Statement of compliance**

Financial statements of Karlovačka banka d.d. Karlovac have been prepared in accordance with International Financial Reporting Standards ("IFRS") as established by the European Commission and published in the official gazette of the European Union as well as specific legal requirements for accounting of banks in the Republic of Croatia. Banking operations in Croatia are regulated by the Credit Institutions Act, in accordance with which financial reporting is prescribed by the Croatian National Bank ("the CNB").

The accounting regulations of the CNB are based on "IFRSs". Main differences between the accounting regulations of the CNB and IFRSs are the following:

- By the end of 2019 The Croatian National Bank prescribed the recognition of future impairment losses on exposures classified in risk groups A-1 and A-2 to a level not less than 0.8% of the gross book value of exposure in the risk group A. For 2020 the CNB no longer prescribes this minimum amount for the recognition of future impairment losses on exposures classified in risk groups A. The calculation of expected losses is based on the application of adopted Methodology for calculation of impairment and provisions for exposures in risk sub-groups A-1 and A-2, which is based on the principles of IFRS 9; the calculation of expected credit losses is thus based on using basic parameters: EAD, PD LGD. In 2020 the Bank recognised HRK 19,441 thousand for expected credit losses (2019: HRK 18,629 thousand).

The Bank considers that according to its own valuation methodology based on IFRS 9 the amounts established for 2019 and 2010 reflect realistically the estimated future credit losses.

- The CNB prescribes minimum amounts of impairment provision for secured placements depending on the default time and status, while in accordance with the IFRS reporting framework, impairments do not necessarily have to follow the amount and the trend stated by the *'Decision on the classification of exposures into risk groups and the method of determining credit losses'*.
- The next difference between the IFRSs and accounting rules of CNB relates to provisions for passive legal disputes. According to the *'Decision on obligatory provisioning for passive legal disputes against a credit institution'*, the Bank is obliged to ensure funds for court disputes for which there is no loss of risk or for which a cash outflow is estimated to be less than 10% of the total amount, if the total amount of court dispute exceeds 0.1% of the assets of the credit institution according to the audited financial statements for the previous year. The provision is made in the amount of estimated cash outflow, at minimum of 1% of the total amount of the court dispute, whereas according to IFRS in such a situation it is not necessary for the provision to be recognised. On 31 December 2020 and 31 December 2019 such provisions amounted to HRK 49 thousand.

**Basis for preparation:**

Financial statements have been prepared on the basis of fair value of financial assets classified in the valuation portfolio through other comprehensive income as well as financial assets valued at fair value through income statement. Other financial assets and liabilities and non-financial assets and liabilities are stated at depreciated or historical cost.

For the preparation of financial statements the Management Board is required to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent liabilities at the balance sheet date as well as amounts of revenues and expenses and other comprehensive income during the reporting period. Estimates and related assumptions are based on historical experience and various other factors that are believed to be realistic in the current circumstances and information available at the financial position date, the result of which makes the basis for estimating book value of assets and liabilities not directly visible from other sources. Actual results may differ from those estimates.

## II BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS - continued

### 2.1. Statement of compliance – continued

The key assumptions and estimates are regularly reviewed. Changes to accounting estimates are recognized in the period in which they occur if they exclusively impact that period, or in the period in which they occur or future period if they affect the current or future period.

Key estimates used when applying accounting policies during preparation of the financial statements relate to depreciation calculation of long-term tangible and intangible assets, impairment of assets, impairment of receivables and provisions for court disputes and other losses and the disclosure of potential liabilities.

## III SUMMARY OF ACCOUNTING POLICIES

### 3.1. Changes in accounting policies

#### *Adoption of new and revised International Financial Reporting Standards*

#### *Standards and changes effective in the current and comparative period*

In the comparative period the following amendments to the standards published by the International Accounting Standards Board and adopted by the European Union are in force:

- **Amendments to IAS 19 Employee Benefits** – 'Plan Amendment, Curtailment or Settlement' (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 28 Investments in Associates and Joint Ventures** – 'Long term Interests in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2019)
- **Annual improvements to IFRS Standards 2015-2017 Cycle** - annual changes to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly for the purpose of eliminating discrepancies and clarifying the text (effective for annual periods beginning on or after 1 January 2019),  
Adoption of above stated standards had no impact on the financial statements of the Bank for 2019 and 2020.
- **Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation** (effective for annual periods beginning on or after 1 January 2019)
- **IFRS 16 Leases** – the standard introduces a new comprehensive model for identifying arrangements that contain leases as well as their accounting treatment by the lessor and the lessee. This standard is effective for periods beginning on or after 1 January 2019. This standard has brought significant changes to the lessee's accounting model.

As a result, assets and liabilities were recognised in the lessee's financial statements in the part of the contract that was previously recognised as operating leases. The result of this is an increase in the Bank's assets and liabilities in the current and comparative period (31 December 2020 – HRK 890 thousand, 31 December 2019 – HRK 846 thousand).

These assets are recognised in the Bank's business records from the first date of the lease and are derecognised upon the expiration or termination of the lease.

Exceptions are leases in which term does not exceed 12 months and leases of small assets. Such leases are not classified in this group of assets but are recorded as current liabilities and operating expenses over the term of the lease.

### III SUMMARY OF ACCOUNTING POLICIES - continued

#### 3.1. Changes in accounting policies – continued

Assets of small value are assets with new purchase value that does not exceed HRK 32,500.00 or assets with lease area that is less than 5 m<sup>2</sup>.

Subsequent measurement of these assets is also recorded under the cost mode, i.e. at cost less accumulated depreciation and any impairment losses as well as adjustments to remeasure lease liabilities due to changes in lease term or the amount of lease.

Depreciation of assets with the right of use is performed on a monthly basis using the straight-line method at a rate which depends on the duration of the lease.

In case of a lease without a defined useful life, the Bank recognises assets with the right of use for a period of 2 years from the beginning of the lease with a continuous assessment of the possible useful life of the assets.

During the first application of IFRS 16 from 1 January 2019, the Bank recorded available-for-use assets for those leases with terms which do not expire within 12 months from the date of first application of IFRS 16.

In doing so, the Bank applied a simplified and modified approach by recognising assets with the right of use in an amount equal to the lease obligation.

#### *Standards and changes effective in the current period*

- **Amendments to IFRS 3 – Business Combinations**, Definition of a Business effective for periods beginning on or after 1 January 2020

- **Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures: Interest Rate Benchmark Reform** effective for periods beginning on or after 1 January 2020

- **Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors**, changes in definition, framework for financial reporting effective for periods beginning on or after 1 January 2020

Adoption of above stated standards had no impact on the financial statements of the Bank for 2020.

#### 3.2. Interest income and expenses

Interest income and expenses are recognised in the income statement as they occur for all interest-bearing financial instruments, including those measured at depreciated cost and at fair value, using the effective interest rate method. The effective interest rate method is a method of calculating the depreciated cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

Claims on interest income accrued for exposures in risk categories A1, A2 and B1 are recorded within the Bank's balance accounts.

For claims on interest rates of exposures classified in the risk category B1, in addition to the recording of income, an adjustment of the receivables at 100% is made at the same time within the balance sheet positions.

The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument.

**III SUMMARY OF ACCOUNTING POLICIES - continued**

**3.2. Interest income and expenses - continued**

When loan repayment becomes doubtful, the principal amount is decreased to its recoverable amount and interest income is excluded from the income statement. It is subsequently recognised as collected excluded receivables only in the case of actual collection after the collection of the principal.

Interest income related to loan fees included in the calculation of effective interest rate is recognised only for loans with a maturity term of up to one year, while for long-term placements it is accrued to the entire lifetime of placements charge.

**3.3. Fee and commission income and expenses**

Fee and commission income and expenses comprise fees and commissions from domestic and international payment transactions, guarantees, letters of credit, card business and assets management. They are recognised in the income statement when the corresponding service is provided, except when they are included in effective interest rate calculation.

Fees and commissions expenses comprise fees to the authorised banks for executed foreign payment transactions and for the services of the Financial Agency (FINA) and the Croatian National Bank (CNB) for domestic payments and card transactions.

**3.4. Net gains and losses from financial instruments at fair value through income statement and the result of foreign exchange trading and exchange rate differences arising on translation of monetary assets and liabilities**

This category includes earnings from foreign currency trading, realised and unrealised gains and losses from debt and equity securities held for trading, other financial instruments carried at fair value through income statement and derivative financial instruments.

**3.5. Foreign currency translation**

Transactions in foreign currencies are translated into HRK (Croatian Kuna) at the exchange rate ruling at the date of the transaction. The Croatian Kuna is the official currency of the Bank and the financial statements are presented in that currency.

Monetary assets and liabilities denominated in foreign currencies date are translated to HRK at the balance sheet at the middle foreign exchange rate of the CNB ruling at that date. Exchange rate differences arising on translation are recognised in the income statement.

Non-monetary items denominated in foreign currencies valued at fair value are translated to HRK using the exchange rates at the date when the fair value is determined. Non-monetary items in foreign currency valued at cost are to be stated using the exchange rate at the date of the transaction.

Gains and losses arising on translation and foreign currency trading are recognised in the income statement for the related year.

**3.6. Cash and cash equivalents**

Cash and cash equivalents include highly liquid assets as defined within the cash flow policy.

Cash comprises cash and funds in bank accounts.

Cash includes cash in cash registers in domestic and foreign currency.

Funds in bank accounts include: funds in transaction accounts with the Central bank and with domestic and foreign banks in domestic and foreign currency.

Cash equivalents comprise placements with banks with maturity of up to 90 days.

### **III     SUMMARY OF ACCOUNTING POLICIES - continued**

#### **3.7.     Taxation**

Income tax is the cumulative amount of the current tax liability and deferred tax.

##### *a) Current tax*

Current tax liability is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement for amounts not included in the tax base as well as the amounts of non-deductible expenses. The Bank's current tax liability is calculated using tax rates that are effective, i.e. valid at the balance sheet date.

The Management Board evaluates periodically the positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation.

##### *b) Deferred tax*

Deferred tax is calculated using the liability method and presents tax effects on all significant differences between the tax base, assets and liabilities and the amounts expressed in the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the property will be recovered or the liability settled, based on tax rates and tax laws that are effective or partially applicable at the financial position reporting date.

Deferred tax assets are recognised up to the amount of future taxable profit that is likely to be available for utilisation of temporary differences.

#### **3.8.     Employment benefits**

##### *a) Defined contribution schemes*

The Bank pays contributions for defined contribution schemes on compulsory contractual basis. Once the defined contribution is paid, the Bank has no further obligations. Contributions are recognised as cost of employees as they occur.

The Bank has no other retirement arrangements separate from the state pension system of the Republic of Croatia.

##### *b) Severance payments*

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, if it is probable that the offer will be accepted and if the number of acceptances can be estimated. If severance payments fall due for payment in a period of over 12 months after the financial statements have been made, they are discounted to the present value.

##### *c) Jubilee awards*

The Bank pays its employees certain benefits for long service (jubilee awards). Jubilee award amounts from the amount of HRK 1,500 to HRK 5,000 net for continuous work in the bank from 10 to 40 years of interrupted work. The decision on payments is made individually for each tax period.

### **III SUMMARY OF ACCOUNTING POLICIES - continued**

#### **3.9. Financial instruments**

Financial assets of the Bank are classified into portfolios based on the Bank's intention at the time of the acquisition of a financial instrument and in accordance with the Bank's investment strategy. Financial assets and financial liabilities are classified into the following categories: 'at fair value through income statement', 'at depreciated value', 'at fair value through other comprehensive income', 'loans and receivables' and 'other financial liabilities'.

All financial assets and liabilities are recognised or derecognised at the settlement date when ownership has been transferred and the sale itself is recorded in the books as at the contracted transaction date.

At initial recognition of a financial assets or a financial liability, the Bank measures the asset or the liability at fair value increased by transaction cost (excluding financial assets at fair value through income statement) which are directly attributable to the acquisition or issue of the financial asset or liability.

Classification and measurement of financial assets according to the new IFRS 9

IFRS 9 – Financial instruments has introduced a new approach to the classification of financial assets according to the characteristics of cash flow and the business model in which the asset is held. The Bank recognises financial assets in portfolios valued at:

- depreciated cost
- fair value through income statement
- fair value through other comprehensive income

Depending on the chosen business model based on contracted cash flows.

Impairment

IFRS 9 has introduced a model for impairment of financial assets and recognition of loan losses by recognising expected future losses instead of the previously applied model of the resulting loss, estimating probability of future losses in a period of up to one year or the entire duration of the financial instrument.

According to IFRS 9 exposures are divided into three Stages, whereby:

Stage 1 (risk group A/1) comprises exposures with undetermined evidence of impairment and absence of significant credit risk increase in relation to the recognition date of the financial asset.

In this category, future losses are calculated for a period of up to one year.

Stage 2 (risk group A/2) comprises exposures with undetermined evidence of impairment but there is a significant increase in credit risk in relation to the recognition date of the financial asset.

In this category, future losses are calculated for the entire duration of the financial instrument.

Stage 3 (risk groups B and C) comprises exposures for which there is objective evidence of impairment or that are in the status of default.

The Bank calculated expected credit losses on the basis of an internally developed model (Stage 1, Stage 2).

### **III      SUMMARY OF ACCOUNTING POLICIES - continued**

#### **3.9.      Financial instruments - continued**

For assets on which the Bank identified credit losses (Stage 3 – risk groups B and C), the Bank has maintained the existing methodology for calculating and estimating credit losses.

Depending on the selected business model and the classification of financial assets and based on contracted cash flows, the Bank measures the financial assets as follows:

##### *a) Loans and advances measured at depreciated cost*

This type of property includes all loans granted by the Bank, deposits, payments under guarantees and other warranties if they are classified in accordance with IFRS 9 into assets held for collection of contracted cash flows and are measured at depreciated cost, as well as paid advances and related interest determined by contracts or by the Bank's decisions.

Each individual exposure is recognised at the time of the payment to the recipient of the asset referred to in the preceding paragraph.

Loans and advances represent financial assets held by the bank for the payment of contracted cash flows on principal and interest.

These investments are measured at cost initially and at depreciation cost subsequently using the effective interest rate method, subject to impairment testing due to expected loan losses.

Impairment for expected losses is determined and formed in accordance with the classification of financial assets in particular risk group.

In case there is no objective evidence of impairment or there is no increase in credit risk in relation to the recognition date, the asset is allocated to the risk group A1.

If there is no objective evidence of impairment but there has been a significant increase in credit risk in relation to the date of recognition of the financial asset, the asset is allocated to the risk group A2.

When there is a realistic likelihood that the Bank will not be able to collect all the amounts claimed or when there is evidence of impairment of the financial asset, the asset is allocated to partially recoverable assets, i.e. risk groups B to C, in accordance with the Bank's Rules on the classification of exposures into risk groups and the method of determining loan losses.

##### *b) Securities and other financial instruments valued at fair value through Income statement*

This portfolio includes securities which are aimed at collecting contracted cash flows and at sales.

These instruments are not actively traded with, except for the purpose of risk management, primarily liquidity risk and where appropriate interest rate risk and other risks.

Initially they are measured at fair value (cost of acquisition, excluding transaction costs) and subsequent applications are included in the income statement for the period in which they incurred.

Fair value adjustments are carried out on a monthly basis.

Purchase of financial assets is recognised in the balance sheet at settlement date. The change in value between the trading date and the settlement date is recognised in net profit or loss for the period.

Sold assets are derecognised on the settlement date of the transaction value by the other contractual party.

Reclassification of the instrument can only be carried out in an exceptional case.

### **III SUMMARY OF ACCOUNTING POLICIES - continued**

#### **3.9. Financial instruments - continued**

##### *c) Securities and other financial instruments valued at fair value thorough Income statement*

This portfolio includes securities which are aimed at a higher return either from sales or from the change in the price of the instrument.

Initial valuation is carried out at fair value, i.e. the cost of acquisition.

Gains or losses arising from subsequent fair value adjustments are recognised in the income statement for the period in which they incurred.

Purchase of financial assets is recognised in the balance sheet at settlement date. The change in value between the trading date and the settlement date is recognised in net profit or loss for the period.

Sold assets are derecognised on the settlement date of the transaction value by the other contractual party.

Reclassification of the instrument may only be carried out in an exceptional case in accordance with IFRS 9, section 5.6.3. and 5.6.6.

In this portfolio, the Bank has distributed shares acquired in lieu of uncollected receivables which are quoted in a regulated market as well as shares in cash funds.

Fair value adjustments are recognised in the income statement for the period when they incurred.

Fair value adjustments are carried out on a monthly basis.

##### *d) Securities and other financial instruments valued at depreciated cost*

This category of assets comprises instruments aimed at collecting contracted cash flows on principal and interest payments on the outstanding principal amount.

Securities and financial instruments valued at depreciated cost are initially measured at investment cost, including transaction costs and subsequently at depreciation cost, subject to impairment testing.

Relocating debt securities to another portfolio shall be performed in exceptional and justified cases only.

Property valuation in the new manner shall be done prospectively, i.e. from the day of the reclassification (IFRS 9, section 5.6.2. and 5.6.4.).

##### *e) Securities at fair value through other comprehensive income*

This portfolio contains reclassified securities that the Bank acquired during the period when the selection of this portfolio was obligatory. These are shares that are not quoted in the active market and that do not have fair value and that are carried at cost.

Financial instruments classified as financial assets valued at fair value through other comprehensive income are initially measured at fair value (acquisition cost including transactions costs).

Gains or losses arising from changes in fair value are recognised in equity and, after the derecognition, the cumulative result is not transferred to profit or loss but remains in equity.

Fair value adjustment is carried out at least once a month if input parameters exist.

Reclassification of these instruments is not allowed.

**III SUMMARY OF ACCOUNTING POLICIES - continued**

**3.9. Financial instruments - continued**

*f) Other financial liabilities*

Other financial liabilities include all financial liabilities that are not held for trading or are not classified at fair value through the income statement.

Financial liabilities are valued at depreciated cost using the effective interest rate method.

**3.10. Investments in subsidiaries**

Investments in affiliated companies and subsidiaries in which the investor (the Bank) has majority ownership, influence or control are stated in separate financial statements by the investment cost method and with the impairment of the carrying amount of this property up to its recoverable amount.

The Bank has an investment in Rezidencija Mejaši d.o.o. Karlovac with 100% ownership.

The company is registered for real estate business which has not been conducted for past several years.

Stock (land intended for construction) make up for almost all of the property of the company and is pledged for loan granted by the Bank and for other liabilities of the company. Since the company does not perform its activity, its existing liabilities can only be settled from the sale of said land. The Bank has been trying for years to enforce its claims over the said land in order to settle its claims. Execution of enforcement is in the competence of the municipal court and the Bank has limited possibilities of influencing the time of completion of the enforcement proceedings.

In the enforcement proceedings, the Bank bought the real estate in question at the public auction in 2019 as the only bidder. However, this public auction was declared invalid due to procedural reasons.

At the rescheduled first public auction held at the end of 2020, the Bank as the only bidder place a bid again for the purchase of real estate.

On 3 February, 2021 the Municipal Court in Split issued a decision on the award of real estate to Karlovačka banka d.d. After the payment of the purchase price by the Bank, the conditions for registration of ownership rights in favour of the Bank on the subject real estate will be met.

The Bank has no intention of supporting the continuation of this company's business after the completion of the enforcement proceedings, i.e. the sale of said land and settlement or partial settlement of the company's obligations.

Since according to the Article 278 of the Credit Institutions Acts the company Rezidencija Mejaši d.o.o. does not meet the conditions for consolidation, the Bank is not obliged to include the said company in the reports of the group of credit institutions in accordance with the said Act. Therefore, the Bank uses the exception from consolidation of the financial statements with the related subsidiary in relation to the reporting in accordance with the regulations of the Croatian National Bank.

In its business books the company states its investment in land (stock) in the amount of investment cost and its loan liabilities in the amount of gross principal plus interest. Given that the company has no expected cash flows to settle its liabilities toward the Bank other than from the sale of land, the Bank has valued its exposure to the company based on granted loan in accordance with the accounting rules for banks, by collateral valuation, that is, expected future cash flows from the sale of land expected to be taken over in enforcement proceedings and has provisioned for loan losses.

In its business books the Bank recorded losses on granted loan related to settlement from the sale of the land in question with the estimation being that the effect of consolidation would not have a negative impact on the reported business results of the Bank. The Bank has fully matched its investment in said company in the amount of HRK 20 thousand.

### **III SUMMARY OF ACCOUNTING POLICIES – continued**

#### **3.11. Intangible assets**

Intangible assets are stated at cost less accumulated depreciation and impairment. Costs arising from development activities are recognised as intangible assets if the requirements according to IAS 38 "Intangible Assets" are met. Depreciation of intangible assets is calculated on a straight line basis over the estimated useful life of assets as follows:

Description	2020.	2019.
Software	4 years	4 years
Leasehold investments	up to 10 years	up to 10 years
Other intangible assets	4 years	4 years

#### **3.12. Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, and they are tangible assets if their useful life is longer than one year and single value is greater than HRK 3.500 at the acquisition date. Cost includes purchase price, import duties and tax and other dependent costs of bringing assets to working condition for intended use, decreased by trade discounts.

Subsequent expenditure on already recognised items of tangible assets is added to the carrying value of that asset only if it results in the inflow of future economic benefits over the economic benefits that those assets accrued before the subsequent expenditure. Otherwise, the subsequent expenditure is charged to the current expenses of the period in which it incurred.

At each balance sheet date the Bank assesses whether there is any indication that a tangible asset may be impaired, and if such an indicator exists, the Bank estimates the recoverable amount of the asset taking into account indicators in paragraph 12-14 of IAS 36.

For a subsequent measurement of the value of the real estate, the Bank uses a comparative method which applies a comparison of the value of real estate that is being valued and the value of real estate sold in the area in a close period of time. If there are no data on prices of the sale of similar real estate, then the cost method is used.

The impairment loss on an individual asset is recognised by reducing the carrying amount to the recoverable amount at the expense of the period in which the loss is estimated.

If the increase in carrying amount is above the value of forfeited loss, the increase is recognised as a part of comprehensive income and is stated cumulatively in equity as a revaluation reserve.

Depreciation is calculated when the acquisition value of property, apart from current investments is written off according to the straight-line method during useful life as follows:

Description	2020.	2019.
Buildings	40 years	40 years
IT equipment	4 years	4 years
Furniture	10 years	10 years
Personal vehicles	5 years	5 years
Other equipment	10 years	10 years

### **III     SUMMARY OF ACCOUNTING POLICIES - continued**

#### **3.12.   Property and equipment - continued**

During 2017 Karlovačka banka carried out the division of the purchase value of buildings into the value of land and the value of buildings themselves in accordance with provisions of IAS 16, p.58.

At the same time, the correction of the depreciation rates of buildings was carried out in such a way that they were calculated on the basis of the residual useful life.

The Bank is active in finding a buyer for property that is not in use and intends to sell it.

#### **3.13.   Assets acquired in lieu of uncollected receivables**

The Bank assesses marketability of assets acquired in lieu of uncollected receivables and recognizes as assets only marketable assets the value of which can be measured reliably. Such assets are stated at the lower of the cost of related loans or the fair value of that asset, depending on which is the lower one.

When such assets are sold, the difference between the purchase price and the carrying value is stated in other income or expenses.

Assets acquired in lieu of uncollected receivables are originally intended for sale and rented only exceptionally until such time when an appropriate bid for sale is made.

#### **3.14.   Liabilities for loans**

Liabilities for receivables are recognised in accounting records at nominal value arising from the business transaction based on the contract or another credible accounting record.

Subsequently, these liabilities are measured at depreciated cost and thus presented in the Bank's financial statements.

#### **3.15.   Received deposits**

Received deposits are classified as: funds in transaction accounts, savings deposits, time deposits and other deposits.

Deposit liabilities are stated at agreed nominal value and subsequent measurement is carried out in accordance with the portfolio policy at depreciated cost.

#### **3.16.   Earnings per share**

Earning per share is calculated by dividing the net profit by the weighted average number of existing shares (ordinary shares) for the period, without own shares.

#### **3.17.   Issued subordinated and hybrid instruments**

The bank uses these instruments as a rule to collect funds with the aim of creating additional capital. These instruments may be recognised as supplementary capital only if they fulfil the conditions prescribed by special decisions of the central bank regulating the content of regulatory capital and the EU regulations as well.

Subsequent valuation and presentation of subordinated and hybrid instruments is carried out in accordance with the portfolio policy at depreciated cost.

### **III      SUMMARY OF ACCOUNTING POLICIES - continued**

#### **3.18.    Key accounting estimates**

The preparation of the Bank's financial statements in accordance with the IFRS requires that the Bank's Management Board makes estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The estimates and related assumptions are based on historical experience and various other factors that are believed to be realistic in the circumstances and information available at the date of preparing the financial statements, the results of which form the basis for judgments on carrying values of assets and liabilities that are not easily ascertainable from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which they are incurred if they only affect that period or the period in which they are incurred and future periods if they affect current and future periods.

a) **Losses from impairment of loans**

The Bank conducts loan assessment procedures at a minimum quarterly level. The rules/methods of assessment are defined by the internal act on classification of placements. The assessment is based on the acceptance of basic classification criteria – creditworthiness, regularity and quality of insurance instruments.

Impairment losses on exposures that are not secured by adequate collateral are carried out on the basis of default days, while estimates for exposures secured by adequate collateral use default days as well as the criteria for quality and value of the instruments, types of measures taken for collection and also historic data on the maturity terms applying the reduction factor for a particular type of insurance instrument. Impairment is determined as a positive difference between the gross carrying amount of a given exposure and the present value of estimated future cash flows discounted using the effective interest rate.

b) **Losses from court disputes**

Provisions for court disputes are conducted in accordance with the rules established by the Bank's internal act which is based on the basic provisions of the relevant decision of the CNB.

#### **3.19.    Contingent liabilities and commitments**

In the ordinary course of business, the Bank issued guarantees and letters of credit and granted loans that were not fully utilised and other contingencies and these are stated as contingent liabilities and commitments in the off-balance records. These financial instruments are stated in the Bank's balance sheet when and if the Bank settled the matured liability.

Provisions for possible losses for contingent liabilities and commitments are maintained at a level that is believed by the Bank's Management Board to be adequate to absorb probable future losses.

The Management Board determines the adequacy of the provisions based on reviews of individual items, current economic conditions, the risk characteristics of various categories of transactions and other pertinent factors.

Impaired values are implemented at a minimum quarterly level in accordance with the criteria and rules prescribed by the internal act on classification of placements and off-balance liabilities.

Regarding the classification criteria and the division according to the degree of risk, the Bank applies the same rules as those for balance sheet items. The amount of the offsetting for a certain off-balance obligation is equal to the amount of expected future expenditures for settling off-balance obligation that the Bank will not be able to offset

If the effect of the time value of money is significant, the amount of the provision is equal to the discounted value of the expected future irreparable outflows for settling the off-balance obligation using a discount rate corresponding to the current market value of money. It is considered that the effect of the time value of money is significant when it is estimated that the cash outflow will be in a period of more than one year and the expected outflow of more than 0.1% of the bank's assets.

**III     SUMMARY OF ACCOUNTING POLICIES - continued**

**3.20.   Cash flow statement**

For the cash flow reporting purposes, cash and cash equivalents are defined as cash, placements and deposits to banks with maturity of up to 90 days.

**3.21.   Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Bank's Management Board that makes strategic decisions has been identified as the chief operating decision-maker, i.e. the function responsible for allocating resources and evaluating the performance of the operating segments.

The Bank has identified four primary segments: Retail, Corporate, Financial institutions and Other. Segment information is based on information provided to management for management purposes.

**3.22.   Regulatory requirements**

The Bank is required to comply with the regulations of the Croatian National Bank, which include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments and provisioning to cover credit risk, liquidity risk, interest risk and investments in tangible assets.

Regarding the applicable regulatory limits from all the above mentioned areas, the Bank has, after several years, adjusted its investment in tangible assets in relation to recognised capital with the prescribed limits of the CNB.

As at 31 December 2020 the regulatory capital rate amounted to 20.55% (31 December 2019: 18.40%) which is a level that exceeds the regulatory and internal limit of this indicator.

**NOTES TO THE INCOME STATEMENT**

**4. Interest income**

*a) Interest income – Analysis by source*

Description	2020. HRK ,000	2019. HRK ,000
Corporates	12,728	12,122
Individuals	34,722	36,033
Financial institutions	643	884
Public sector	8,076	13,405
Other	95	447
<b>Total interest income</b>	<b>56,264</b>	<b>62,891</b>

*b) Interest income – Analysis by product*

Description	2020. HRK ,000	2019. HRK ,000
Loans and receivables from customers	51,817	55,325
Loans and receivables from financial institutions	585	1,117
Debt securities	3,814	6,421
Other	48	28
<b>Total interest income</b>	<b>56,264</b>	<b>62,891</b>

**NOTES TO THE INCOME STATEMENT – continued**

**5. Interest expenses**

*a) Interest expenses – Analysis by recipient*

<b>Description</b>	<b>2020.</b>	<b>2019.</b>
	<b>HRK ,000</b>	<b>HRK ,000</b>
Corporates	45	78
Individuals	5,106	7,468
Financial institutions	491	462
Public sector	49	51
Non-profit institutions	5	4
Other	-	2
<b>Total interest expenses</b>	<b>5,696</b>	<b>8,065</b>

*b) Interest expenses – Analysis by product*

<b>Description</b>	<b>2020.</b>	<b>2019.</b>
	<b>HRK ,000</b>	<b>HRK ,000</b>
Current accounts and deposits from individuals	2,356	4,720
Current accounts and deposits from corporates and other companies	74	104
Loans from financial institutions	23	66
Hybrid instruments	2,746	2,744
Interest on deposits with CNB and financial institutions	468	396
Other	29	35
<b>Total interest expenses</b>	<b>5,696</b>	<b>8,065</b>

**NOTES TO THE INCOME STATEMENT – continued**

**6. Fee and commission income**

Description	2020. HRK ,000	2019. HRK ,000
Payments	9,412	10,116
Approved loans	434	381
Guarantees and letters of credit	866	954
Self-service devices	4,412	4,566
Account maintenance fee	4,635	3,719
Giro and current account cards	538	317
Credit cards	325	298
Mobile, Telephone and Internet Banking	1,366	1,604
Mandates	58	68
Various service packages	364	351
Fees on foreign exchange operations of individuals	225	75
Other	287	385
<b>Total fee and commission income</b>	<b>22,922</b>	<b>22,834</b>

**7. Fee and commission expenses**

Description	2020. HRK ,000	2019. HRK ,000
Payments service fee	3,257	3,657
Card transactions	2,305	2,490
Other	1,046	785
<b>Total fee and commission expenses</b>	<b>6,608</b>	<b>6,932</b>

**8. Profit from financial activities**

Description	2020. HRK '000	2019. HRK '000
Profit/loss from foreign currency trading	10,461	7,426
Loss from trading in HRK	(20)	(20)
Profit/loss from securities not actively traded but valued at fair value through income statement	(738)	5,092
Profit/loss from securities classified at depreciated cost	(4)	-
<b>Total profit from financial activities</b>	<b>9,699</b>	<b>12,498</b>

**NOTES TO THE INCOME STATEMENT – continued**

**9. Net foreign exchange income**

Description	2020. HRK ,000	2019. HRK ,000
Currency differences on translations	(9,393)	(2,901)
Currency differences from currency clause	9,114	2,864
<b>Total net foreign exchange income</b>	<b>(279)</b>	<b>(37)</b>

**10. Other operating income**

Description	2020. HRK ,000	2019. HRK ,000
Income from sale of tangible assets	23,953	1,458
Write offs of old and inactive accounts	159	161
Court settlements and reimbursements	4	191
Office leases	182	569
Collection of damages and interest from previous years	11	138
Income from various contractual relationships	6	64
Other unspecified income	239	152
<b>Total other operating income</b>	<b>24,554</b>	<b>2,733</b>

**11. Other administrative and other operating expenses**

Description	2020. HRK ,000	2019. HRK ,000
Employees (note 12)	26,713	25,580
Depreciation (note 25 and 26)	4,354	4,523
Other operating expenses (note 13)	33,530	26,664
<b>Total other operating expenses</b>	<b>64,597</b>	<b>56,767</b>

**NOTES TO THE INCOME STATEMENT – continued**

**12. Staff costs**

Description	2020. HRK ,000	2019. HRK ,000
Net salaries	13,922	13,519
Taxes and contributions from salaries	5,554	5,483
Contributions	3,260	3,189
Reimbursements to employees	3,977	3,389
<b>Total staff costs</b>	<b>26,713</b>	<b>25,580</b>

As at 31 December 2020 the Bank had 166 employees (31 December 2019: 169 employees).

**13. Other operating expenses**

Description	2020. HRK ,000	2019. HRK ,000
Costs of material and similar expenses	2,210	1,631
Costs of services	9,944	10,419
Entertainment, advertising and promotion expenses	540	853
Remuneration of Supervisory Board	623	599
Losses from sold and depreciated fixed assets	1,470	348
Associated costs of selling fixed assets	12,158	-
Costs of court proceedings, settlements and penalties	515	6,613
Savings deposits insurance	4,792	4,777
Other	1,278	1,424
<b>Total other operating expenses</b>	<b>33,530</b>	<b>26,664</b>

**NOTES TO THE INCOME STATEMENT – continued**

**14. Impairment and provision costs**

Description	2020.	2019.
	HRK,000	HRK,000
Impairment of loans and advances to customers (note 24)	9,034	4,088
Impairment of other assets (note 28)	(305)	143
Special reserves for identified losses (note 24)	744	1,362
Impairment of financial assets at depreciated cost (note 22)	1,064	(94)
Collected receivables previously written-off	(51)	(1,609)
Provisions for commitments and contingent liabilities (note 34)	(860)	373
Provisions for court disputes and employees (note 34)	(3,836)	370
Impairment of bank placements (note 20)	(87)	16
Impairment of receivables from CNB (note 19)	(8)	4
Impairment of cash (note 18)	(22)	(54)
Impairment of tangible assets intended for sale and foreclosed assets (note 25 a) and 27)	688	1,937
<b>Total impairment and provision costs</b>	<b>6,361</b>	<b>6,536</b>

**15. Income tax**

Description	2020.	2019.
	HRK ,000	HRK ,000
<b>Accounting profit/loss</b>	<b>29,898</b>	<b>22,619</b>
Items which increase tax base	4,015	8,187
Items which decrease tax base	(33,454)	(17,691)
<b>Income after increase and decrease</b>	<b>459</b>	<b>13,115</b>
Tax loss carried forward	-	(4,379)
Tax basis	459	8,736
<b>Income tax rate</b>	<b>18%</b>	<b>18%</b>
Tax liability	83	1,572
Changes in deferred tax assets	313	154
<b>Total income tax liability</b>	<b>396</b>	<b>1,726</b>

Income tax is calculated in accordance with Croatian legislation. Tax rate on taxable income is 18% (2019: 18%). As at 31 December 2020 shown income tax liability was increased by HRK 313 thousand of used tax assets and the current income tax liability in the Bank's income statement was HRK 396 thousand.

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE INCOME STATEMENT – continued**

**16. Earnings per share**

For the purpose of calculating earnings per share, earnings are calculated as the profit for the period attributable to shareholders. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used to calculate basic earnings per share was 17,559,585 (2018.: 17,559,585). Since there is no effect of dilution of other instruments, basic and diluted earnings per share are the same.

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Profit / (Loss) for the year	29,502	20,893
Weighted average number of ordinary shares (in thousand)	17,560	17,560
<b>Profit(Loss) per share</b>	<b>1.68</b>	<b>1.19</b>

**17. Financial information by segment**

The Bank classifies customers by segment and sub segment depending on their size.

Segment Individuals includes: individuals, craftsmen and free-lance professions.

Segment Corporates includes: public companies and private companies.

Segment Financial institutions includes: credit institutions, funds, insurance companies and other institutions performing financial activities.

Segment Other includes assets and liabilities not included within other segments.

Operating activities and customers are located mostly in Croatia and for that reason the geographical details by segments are not published.

*a) Income statement by segment for 2020 – operating segments*

Description	Individuals HRK,000	Corporat es HRK,000	Financial institutions HRK,000	Other HRK,000	Total HRK,000
Net interest income	29,616	12,683	152	8,117	50,568
Net fees and commissions income	13,732	4,448	(2,978)	1,112	16,314
Provisions and placement impairments	(2,971)	(2,711)	(404)	(275)	(6,361)
Other	(29,909)	2,104	(2,020)	(798)	(30,623)
Result by segment	10,468	16,524	(5,250)	8,156	29,898
Income tax	(119)	(198)	-	(79)	(396)
Net result by segment	10,349	16,326	(5,250)	8,077	29,502

**NOTES TO THE INCOME STATEMENT – continued**

*b) Income statement by segment for 2019. godinu – operating segments*

Description	Individuals	Corporate s	Financial institutions	Other	Total
	HRK,000	HRK,000	HRK,000	HRK,000	HRK,000
Net interest income	28,565	12,044	422	13,795	54,826
Net fees and commissions income	12,773	5,281	(3,089)	937	15,902
Provisions and placement impairments	(5,450)	1,033	(21)	(2,098)	(6,536)
Other	(22,950)	(22,110)	421	3,066	(41,573)
Result by segment	12,938	(3,752)	(2,267)	15,700	22,619
Income tax	(780)	-	-	(946)	(1,726)
Net result by segment	12,158	(3,752)	(2,267)	14,754	20,893

*c) Statement of financial position (Balance sheet) as at 31 December 2020 – operating segments*

Description	Individual s	Corporat es	Financial institutions	Other	Total
	HRK,000	HRK,000	HRK,000	HRK,000	HRK,000
Net placements	662,421	356,374	7,294	160,513	1,186,602
Financial assets through other comprehensive income	-	-	150	-	150
Financial assets at depreciated cost	-	39,126	-	522,411	561,537
Financial assets at fair value through income statement (FOB and FOP)		177	11,270	-	11,447
Other	305	850	876,704	8,656	886,515
Assets by segment	662,726	396,527	895,418	691,580	2,646,251
Deposits and hybrids	1,863,151	364,668	1,197	191,979	2,420,995
Loans	-	-	2,072	-	2,072
Other	6,526	8,616	1,204	282	16,628
Liabilities by segment	1,869,677	373,284	4,473	192,261	2,439,695

**NOTES TO THE INCOME STATEMENT – continued**

**17. Financial information by segment - continued**

*d) Statement of financial position (Balance sheet) as at 31 December 2019 – operating segments*

Description	Individuals HRK,000	Corporates HRK,000	Financial institutions HRK,000	Other HRK,000	Total HRK,000
Net placements	666,000	282,834	6,158	157,381	1,112,373
Financial assets through other comprehensive income	-	-	150	-	150
Financial assets at depreciated cost	-	-	7,538	296,046	303,584
Financial assets at fair value through income statement	-	19,090	35,841	173,510	228,441
Other	1,150	2,758	658,720	97,703	760,331
Assets by segment	667,150	304,682	708,407	724,640	2,404,879
Deposits	1,830,642	244,880	1,034	123,589	2,200,145
Loans	-	-	3,726	-	3,726
Other	4,666	2,255	275	16,758	23,954
Liabilities by segment	1,835,308	247,135	5,035	140,347	2,227,825

**18. Cash**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Giro account	447,619	255,866
Cash in hand:		
- HRK	30,201	30,714
- foreign currency	19,161	17,598
Cash in foreign current accounts with foreign banks	132,434	92,130
Cash in foreign current accounts with domestic banks	34,425	50,691
Impairment	(182)	(204)
<b>Total cash</b>	<b>663,658</b>	<b>446,795</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET**

**18. Cash - continued**

Impairment relates to special reserves which are determined on cumulative basis for placements of the risk group A. Movements on impairments are shown as follows:

Description	2020. HRK ,000	2019. HRK ,000
<b>Balance as at 1 January</b>	<b>(204)</b>	<b>(258)</b>
Net impairment (note 14)	22	54
<b>Balance as at 31 December</b>	<b>(182)</b>	<b>(204)</b>

**19. Receivables from the Croatian National Bank**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Obligatory reserve		
- HRK	136,694	158,665
Other deposits	4,723	4,651
Impairment	(32)	(40)
<b>Total receivables from the Croatian National Bank</b>	<b>141,385</b>	<b>163,276</b>

According to CNB Decision the Bank is required to calculate obligatory reserves in the amount of 9% (2019: 12%) of the average daily balance of deposits and loans on which the obligatory reserves are calculated. The Bank cannot use obligatory reserves for its daily operations.

The Kuna share in the minimum reserve requirement calculated as above is increased by 75% of calculated minimum reserve requirement on foreign currency deposits and loans. The percentage of allocation of the Kuna share in the minimum reserve requirement amounts to 70% (2019: 70%). The Kuna share in the minimum reserve requirement is allocated with CNB by transfer of the calculated funds to the allocated minimum reserve requirement account kept with CNB.

Starting from 2017, 100% of the foreign currency portion of obligatory reserves are kept in form of other liquid receivables.

CNB Decision on the minimum reserve requirement introduced a 100% maintenance of foreign currency minimum reserve requirement. Decision also introduced the obligation of banks to maintain at least 2% of the foreign currency minimum reserve requirement by the average daily balance of funds on their own EUR settlement accounts with the CNB, respectively on their own PM accounts in TARGET2-HR (accounts used to settle transactions in EURO in actual time, on a gross base).

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET**

**19. Receivables from the Croatian National Bank - continued**

Impairment refers to special reserves which are determined on cumulative basis for placements of the risk group A as shown below:

<u>Description</u>	<u>2020.</u> HRK ,000	<u>2019.</u> HRK ,000
<b>Balance as at 1 January</b>	<b>(40)</b>	<b>(36)</b>
Net impairment (note 14)	8	(4)
<b>Balance as at 31 December</b>	<b>(32)</b>	<b>(40)</b>

**20. Placements with banks**

<u>Description</u>	<u>31.12.2020.</u> HRK ,000	<u>31.12.2019.</u> HRK ,000
Short term deposits with foreign banks	15,220	36,132
Guarantee deposits	4,107	12,617
Impairment	(13)	(100)
<b>Total placements with banks</b>	<b>19,314</b>	<b>48,649</b>

Impairment refers to special reserves which are determined on cumulative basis for placements of the risk group A. Movements are shown as follows:

<u>Description</u>	<u>2020.</u> HRK ,000	<u>2019.</u> HRK ,000
<b>Balance as at 1 January</b>	<b>(100)</b>	<b>(84)</b>
Net impairment (note 14)	87	(16)
Correction of IFRS-9	-	-
<b>Balance as at 31 December</b>	<b>(13)</b>	<b>(100)</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**21. Financial assets valued through other comprehensive income**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Investments in equity securities	150	150
<b>Total financial assets through other comprehensive income</b>	<b>150</b>	<b>150</b>

/i/ Investments in equity securities refer to the following:

DESCRIPTION	31.12.2020. HRK,000	31.12.2019. HRK,000
SKDD d.d. Zagreb	8	8
Tržište novca d.d. Zagreb	1	1
HROK d.o.o	141	141
<b>Total shares</b>	<b>150</b>	<b>150</b>

/ii/ Equity investments relate to shares the Bank holds in the portfolio based on participation in the financial market and its share in banking associations.

**22. Financial assets valued at depreciation cost**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Treasury bills of the Ministry of Finance	140,194	164,409
Corporate bonds	39,256	-
Croatian Government bonds	383,946	132,122
HBOR bonds	-	7,848
Impairment	(1,859)	(795)
<b>Total financial assets valued at depreciation cost</b>	<b>561,537</b>	<b>303,584</b>

/i/ Investments in treasury bills of the Ministry of Finance in EUR that mature on 6 May 2021 with the yield of 0.06% (0.0% in 2019).

Investments in treasury bills of the Ministry of Finance in HRK that mature in the period of up to 12 months for which that Bank achieved a yield of 0.06% in 2020 (0.06% to 0.09% in 2019).

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**22. Financial assets valued at depreciation cost**

/ii/ Croatian Government bonds in HRK mature in the period of 6 to 9 months and on them the Bank achieved the yield of 0.55% (2019: 0.8%). Croatian Government bonds in foreign currency mature in the period of 1 to 9 years and the Bank achieved the yield of 1.03% (2019: 3.05%).

Iii/ Croatian Government bonds with currency clause in EUR mature in 2022 and 2027 and the Bank achieved the yield of 0.75% (2019: 0.24%).

/iv/ HBOR bonds in foreign currency matured on 8 May 2020 and the Bank achieved the yield of 1.45% (2019: 1.45%).

/v/ Corporate bonds mature in 2022 and 2023 and the Bank achieved the yield of 2.40% and 1.55% respectively.

/vi/ Impairment relates to special reserves determined on a group base for placements of risk group A. The changes were as follows:

<u>Description</u>	<u>2020.</u> HRK ,000	<u>2019.</u> HRK ,000
<b>Balance as at 1 January</b>	<b>(795)</b>	<b>(889)</b>
Net impairment (note 14)	(1,064)	94
Correction of IFRS-9	-	-
<b>Balance as at 31 December</b>	<b>(1,859)</b>	<b>(795)</b>

**23. Financial assets at fair value through income statement**

<u>Description</u>	<u>31.12.2020.</u> HRK ,000	<u>31.12.2019.</u> HRK ,000
Croatian Government bonds	-	173,510
Other corporate bonds	-	18,581
Shares in investment funds	11,270	35,841
Other bonds	64	235
Equity securities	113	274
<b>Total financial assets at fair value through income statement</b>	<b>11,447</b>	<b>228,441</b>

Given the extraordinary situation in the securities market caused by the COVID-19 pandemic, the Bank changed the business model for the management of debt securities of the Republic of Croatia in accordance with IFRS 9 and reclassified Croatian Government bonds to the holding portfolio to collect contracted cash inflows.

Shares in investment funds refer to investments in the bond fund of Eurozone member states and the achieved yield was 2.84% (2019: 3.16%).

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**23. Financial assets at fair value through income statement - continued**

Investments in equity securities include investment in shares of Varteks (HRK 96 thousand), certificates of Fortenova Group received in the process of restructuring of Agrokor (HRK 16 thousand) and shares of VIS d.d. received in exchange for uncollected receivables at fair value of HRK 0.00.

**24. Loans and advances to customers**

<u>Description</u>	<u>31.12.2020.</u>	<u>31.12.2019.</u>
	<u>HRK ,000</u>	<u>HRK ,000</u>
Corporates	425,367	359,115
Individuals and sole traders	704,908	702,919
Other	168,376	165,949
Collected fees related to future periods	(2,068)	(2,225)
Loan impairments	(109,981)	(113,385)
<b>Total loans and advances to customers</b>	<b>1,186,602</b>	<b>1,112,373</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**24. Loans and advances to customers - continued**

Movements on impairments were as follows:

Description	2020.			2019.		
	Impairment for losses (B and C)	Impairment for expected losses (A1 and A2)	Total	Impairment	Special reserves for identified losses on group basis	
					Total	Total
	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
<b>Balance as at 1 January</b>	99,445	13,940	113,385	118,459	12,577	131,036
Net impairment/provision (note 14)	9,034	744	9,778	4,088	1,362	5,450
Currency differences	155	-	155	48	-	48
Write-offs and other	(13,337)	-	(13,337)	(23,149)	-	(23,149)
<b>Balance as at 31 December</b>	<b>95,297</b>	<b>14,684</b>	<b>109,981</b>	<b>99,446</b>	<b>13,939</b>	<b>113,385</b>

The amount of approved unused overdrafts does not constitute the need to commit the funds in the total amount of approved overdrafts. Overdrafts are granted for a systematic and timely insurance of preconditions for possible and necessary financing. Potential loss from the commitments cannot be determined but according to the experience from previous accounting periods and the effectiveness of existing mechanisms to protect the Bank in case of deterioration of financial position or performance of the client, the Bank does not expect additional losses greater than those stated in the financial statements for 2020.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**24. Loans and advances to customers - continued**

The concentration of risk by economic sector in the portfolio of loans to customers was as shown below:

Description	31.12.2020.	31.12.2019.
	HRK ,000	HRK ,000
Production	110,373	103,946
Trade	149,429	136,975
Tourism	26,418	12,461
Agriculture	18,397	27,668
Construction	206,033	169,612
Services	108,105	93,974
Individuals	651,811	648,278
Other	28,085	35,069
<b>Total by economic sector</b>	<b>1,298,651</b>	<b>1,227,983</b>
Collected fees related to future periods	(2,068)	(2,225)
Impairment and provision for losses	(109,981)	(113,385)
<b>Total net loans and advances to customers</b>	<b>1,186,602</b>	<b>1,112,373</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**25. Property, plant and equipment**

An overview of changes in property, plant and equipment is shown below:

<i>Cost</i>	Description	Buildings and land	Equipment	Furniture and vehicles	Other assets	Flats	Tangible assets under construction	TOTAL
		HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
<b>Balance as at 31 December 2018</b>		<b>87,320</b>	<b>34,301</b>	<b>10,731</b>	<b>1,933</b>	<b>122</b>	<b>5,386</b>	<b>139,793</b>
Additions		1,247	-	-	-	-	2,516	3,763
Transfer from assets under construction		-	1,789	668	12	-	(2,469)	-
Classification of assets held for sale		(21,428)	-	-	-	(43)	-	(21,471)
Other transfers		-	-	36	-	-	(17)	19
Disposals and sales		(11,091)	(3,742)	(1,118)	(196)	(79)	(216)	(16,442)
<b>Balance as at 31 December 2019</b>		<b>56,048</b>	<b>32,348</b>	<b>10,317</b>	<b>1,749</b>	<b>-</b>	<b>5,200</b>	<b>105,662</b>
Additions		-	-	-	-	-	1,264	1,264
Transfer from assets under construction		-	1,084	344	29	-	(1,457)	-
Other transfers		(379)	13	-	1	-	-	(365)
Disposals and sales		-	(702)	(609)	(144)	-	-	(1,455)
<b>Balance as at 31 December 2020</b>		<b>55,669</b>	<b>32,743</b>	<b>10,052</b>	<b>1,635</b>	<b>-</b>	<b>5,007</b>	<b>105,106</b>
<i>Impairment</i>								
<b>Balance as at 31 December 2018</b>		<b>57,443</b>	<b>27,319</b>	<b>10,022</b>	<b>1,548</b>	<b>122</b>	<b>2,472</b>	<b>98,916</b>
Depreciation for 2019		1,015	2,583	343	19	-	105	4,065
Depreciation of leased assets		371	-	-	-	-	-	371
Impairment through depreciation		399	-	-	-	-	-	399
Classification of assets held for sale		(11,178)	-	-	-	(43)	-	(11,221)
Disposals and sales		(9,550)	(3,733)	(1,118)	(196)	(79)	(213)	(14,889)
Other transfers		-	-	36	-	-	-	36
<b>Balance as at 31 December 2019</b>		<b>38,490</b>	<b>26,169</b>	<b>9,283</b>	<b>1,371</b>	<b>-</b>	<b>2,364</b>	<b>77,677</b>
Depreciation for 2020		1,015	2,475	233	9	-	105	3,837
Depreciation of leased assets		427	-	-	-	-	-	427
Disposals and sales		-	(702)	(609)	(144)	-	-	(1,455)
Other transfers		(379)	-	-	-	-	-	(379)
<b>Balance as at 31 December 2020</b>		<b>39,553</b>	<b>27,942</b>	<b>8,907</b>	<b>1,236</b>	<b>-</b>	<b>2,469</b>	<b>80,107</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**25. Property, plant and equipment - continued**

An overview of changes in property, plant and equipment is shown below:

Description	Buildings and land HRK ,000	Equipment HRK ,000	Furniture and vehicles HRK ,000	Other assets HRK ,000	Flats HRK ,000	Tangible assets under construction HRK ,000	TOTAL HRK ,000
Net carrying value as at 31 December 2018	29,887	6,981	708	385	-	2,914	40,877
Net carrying value as at 31 December 2019	17,558	6,179	1,034	378	-	2,836	27,985
Net carrying value as at 31 December 2020	16,116	4,801	1,145	399	-	2,538	24,999

Ownership of the predominant part of the property in which the Bank operates is registered at the Land registry. Procedure to establish certain specific parts of the property needs to be instituted for two properties which is a prerequisite for the registration of ownership at the Land registry. There are no pledges on the Bank's real estate.

The cost of assets that have been fully depreciated but still used in the Bank's business amounted to HRK 30,321 thousand.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**26. Intangible assets**

Overview of changes in intangible assets is given below:

Description	Software	Investments in leasehold assets	Other assets	Advances / Preparation	TOTAL
<b><i>Cost</i></b>					
<b>Balance as at 31 December 2018</b>	<b>2,238</b>	<b>6,674</b>	<b>533</b>	<b>-</b>	<b>9,445</b>
Additions	-	-	-	19	19
Transfer from preparation	19	-	-	(19)	-
<b>Balance as at 31 December 2019</b>	<b>2,257</b>	<b>6,674</b>	<b>533</b>	<b>-</b>	<b>9,464</b>
Disposals and sales	-	-	-	-	-
Additions	-	-	-	-	-
Transfer from preparation	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>2,257</b>	<b>6,674</b>	<b>533</b>	<b>-</b>	<b>9,464</b>
<b><i>Impairment</i></b>					
<b>Balance as at 31 December 2018</b>	<b>1,974</b>	<b>6,674</b>	<b>533</b>	<b>-</b>	<b>9,181</b>
Depreciation	88	-	-	-	88
Disposals and sales	-	-	-	-	-
<b>Balance as at 31 December 2019</b>	<b>2,062</b>	<b>6,674</b>	<b>533</b>	<b>-</b>	<b>9,269</b>
Depreciation for 2020	90	-	-	-	90
Disposals and sales	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>2,152</b>	<b>6,674</b>	<b>533</b>	<b>-</b>	<b>9,359</b>
<b>Net carrying value as at 31 December 2019</b>	<b>196</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>196</b>
<b>Net carrying value as at 31 December 2020</b>	<b>105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105</b>

**27. Foreclosed assets and assets held for sale**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Land	6,785	41,369
Buildings	16,297	19,046
Flats and other assets	2,657	5,665
<b>Total:</b>	<b>25,739</b>	<b>66,080</b>

**Foreclosed assets**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Land	6,773	41,357
Buildings	6,424	8,808
Flats and other assets	2,657	5,665
<b>Total foreclosed assets</b>	<b>15,854</b>	<b>55,830</b>

/i/ Land stated as at 31 December 2020 in the amount of HRK 6,773 thousand (31 December 2019: HRK 41,357 thousand) refers to building sites which are located in 3 Counties of the Republic of Croatia and the two most valuable of them are located in Zagreb County and the City of Zagreb.

/ii/ Buildings stated as at 31 December 2020 in the amount of HRK 6,424 thousand (31 December 2019: HRK 8,808 thousand) refer mostly to foreclosed buildings intended for office purposes; total of 5 buildings located mainly in Karlovac County and two buildings in the vicinity of Pakrac.

/iii/ Residential buildings and flats in the total amount of HRK 2,657 thousand contain total of 11 flats, houses and garages which relate, both in number and value, mostly to those located in the area of Karlovac and Karlovac County.

/iv/ The Bank is currently awaiting finality of an order regarding completed foreclosure of a land in Split which was collateral for the Bank's claims for approved loans and other receivables from the customer.

/v/ In addition to specified locations, assets held for sale include 2 buildings with land located in Karlovac in the value of HRK 8,237 thousand, one building in Vojnić (HRK 52 thousand) and one building in Zagreb in the value of HRK 1,596 thousand.

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**27. Foreclosed assets and assets held for sale - continued**

Overview of changes in foreclosed assets is shown below:

Description	Land	Buildings	Flats and other assets	Total
<i>Cost</i>				
<b>Balance at 31 December 2018</b>	<b>69,780</b>	<b>10,814</b>	<b>11,441</b>	<b>92,035</b>
Foreclosure and property transfer tax	786	1,754	256	2,796
Sales	-	(2,113)	(3,657)	(5,769)
<b>Balance at 31 December 2019</b>	<b>70,566</b>	<b>10,456</b>	<b>8,040</b>	<b>89,062</b>
Foreclosure and property transfer tax	3	8	284	-295
Sales	(62,640)	(2,918)	(4,989)	(67,927)
<b>Balance at 31 December 2020</b>	<b>7,929</b>	<b>7,546</b>	<b>3,335</b>	<b>18,810</b>
<i>Impairment</i>				
<b>Balance at 31 December 2018</b>	<b>28,656</b>	<b>1,090</b>	<b>2,947</b>	<b>32,693</b>
Depreciation	-	244	146	390
Value adjustment	553	346	249	1,148
Sales	-	(32)	(967)	(999)
<b>Balance at 31 December 2019</b>	<b>29,209</b>	<b>1,648</b>	<b>2,375</b>	<b>33,232</b>
Depreciation	-	216	107	323
Value adjustment	-	-	-	-
Sales	(28,053)	(742)	(1,804)	(30,599)
<b>Balance at 31 December 2020</b>	<b>1,156</b>	<b>1,122</b>	<b>678</b>	<b>2,956</b>
<b>Net value at 31 December 2018</b>	<b>41,124</b>	<b>9,724</b>	<b>8,494</b>	<b>59,342</b>
<b>Net value at 31 December 2019</b>	<b>41,357</b>	<b>8,808</b>	<b>5,665</b>	<b>55,830</b>
<b>Net value at 31 December 2020</b>	<b>6,773</b>	<b>6,424</b>	<b>2,657</b>	<b>15,854</b>

**27. Foreclosed assets and assets held for sale - continued**

Overview of changes in assets held for sale is shown below:

Description	Land	Buildings	Flats	TOTAL
<b><i>Cost</i></b>				
<b>Balance at 31 December 2018</b>	-	-	-	-
Classification of assets held for sale	12	21,416	43	<b>21,471</b>
<b>Balance at 31 December 2019</b>	<b>12</b>	<b>21,416</b>	<b>43</b>	<b>21,471</b>
Classification of assets held for sale	-	-	-	-
<b>Balance at 31 December 2020</b>	<b>12</b>	<b>21,416</b>	<b>43</b>	<b>21,471</b>
<b><i>Impairment</i></b>				
<b>Balance at 31 December 2018</b>	-	-	-	-
Classification of assets held for sale	-	11,178	43	<b>11,221</b>
<b>Balance at 31 December 2019</b>	-	<b>11,178</b>	<b>43</b>	<b>11,221</b>
Depreciation	-	365	-	<b>365</b>
<b>Balance at 31 December 2020</b>	-	<b>11,543</b>	<b>43</b>	<b>11,586</b>
<b>Net carrying value at 31 December 2018</b>	-	-	-	-
<b>Net carrying value at 31 December 2019</b>	<b>12</b>	<b>10,238</b>	<b>43</b>	<b>10,250</b>
<b>Net carrying value at 31 December 2020</b>	<b>12</b>	<b>9,873</b>	-	<b>9,885</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**28. Other assets**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Fees and commissions receivables	1,360	1,841
Trade receivables	31	290
Prepayment receivables	7,310	4,079
Prepaid costs	413	517
Prepaid taxes and contributions	1,097	3
Receivables from card business	247	293
Receivables from various contractual relations	1,266	1,059
Other receivables	462	461
Impairment	(1,581)	(2,217)
Net deferred tax assets	710	1,024
<b>Total other assets</b>	<b>11,315</b>	<b>7,350</b>

Changes in impairments are shown below:

Description	2020. HRK ,000	2019. HRK ,000
<b>Balance at 1 January</b>	<b>2,217</b>	<b>2,388</b>
New impairment (note 14)	274	633
Collected and relieved amounts (note 14)	(579)	(491)
Exchange differences	2	1
Write-offs and corrections	(333)	(314)
<b>Balance at 31 December</b>	<b>1,581</b>	<b>2,217</b>

Deferred tax assets are stated at the following temporary differences:

Description	2020. HRK ,000	2019. HRK ,000
Deferred fee for granted loans	442	470
Unrealised losses from securities	256	500
Net property adjustment	12	53
<b>Balance at 31 December</b>	<b>710</b>	<b>1,024</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**28. Other assets - continued**

Tax assets include tax paid on deferred income from fees for granted loans, unrecognised unrealised losses from securities and partially unrecognised expenses of property value adjustments.

Collected fees from granted loans represent a business constant and it is estimated that in the near future a certain use of this property will be made on the basis of these differences. The situation is similar with unrealised losses from securities, while the value adjustment of tangible assets was based on the precautionary principle in terms of the possibility and timing of the sale.

Changes in tax assets:

Description	2020. HRK ,000	2019. HRK ,000
<b>Balance at 1 January</b>	<b>1,024</b>	<b>1,178</b>
Recognition of deferred tax assets	215	886
Value adjustment of tax assets	(5,343)	1,010
Use of deferred tax assets	(5,872)	(2,050)
<b>Balance at 31 December</b>	<b>710</b>	<b>1,024</b>

Changes in impairments of tax assets are shown below:

Description	2020. HRK ,000	2019. HRK ,000
<b>Balance at 1 January</b>	<b>(9,255)</b>	<b>(10,265)</b>
New impairment	(111)	(452)
Impairment reduction	5,454	1,462
<b>Balance at 31 December</b>	<b>(3,912)</b>	<b>(9,255)</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**29. Liabilities to banks**

Description	31.12.2020. HRK '000	31.12.2019. HRK '000
Demand deposits		
- HRK	1	173
- foreign currency	-	-
<b>Total demand deposits</b>	<b>1</b>	<b>173</b>
Term deposits		
- HRK	-	-
- foreign currency	-	-
<b>Total term deposits</b>	<b>-</b>	<b>-</b>
<b>Total banks</b>	<b>1</b>	<b>173</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**30. Demand deposits**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Demand deposits – individuals		
- HRK	541,386	442,135
- foreign currency	354,970	300,310
<b>Total individuals</b>	<b>896,356</b>	<b>742,445</b>
Demand deposits – corporates		
- HRK	211,447	166,579
- foreign currency	146,557	65,257
<b>Total corporates</b>	<b>358,004</b>	<b>231,836</b>
Demand deposits – financial institutions		
- HRK	1,167	855
- foreign currency	-	6
<b>Total financial institutions</b>	<b>1,167</b>	<b>861</b>
Demand deposits – Government and other institutions		
- HRK	149,917	111,993
- foreign currency	831	960
<b>Total Government and other institutions</b>	<b>150,748</b>	<b>112,953</b>
Restricted deposits		
- HRK	4,433	3,771
- foreign currency	5,642	5,693
<b>Total restricted deposits</b>	<b>10,075</b>	<b>9,464</b>
Demand deposits – foreign persons		
- HRK	4,124	4,643
- foreign currency	22,755	20,847
<b>Total foreign persons</b>	<b>26,879</b>	<b>25,490</b>
<b>Total demand deposits</b>	<b>1,443,229</b>	<b>1,123,049</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**31. Term deposits**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Deposits – individuals		
- HRK	297,726	318,915
- foreign currency	606,875	677,199
<b>Total individuals</b>	<b>904,601</b>	<b>996,114</b>
Deposits - corporates		
- HRK	4,684	2,038
- foreign currency	347	11,006
<b>Total corporates</b>	<b>5,031</b>	<b>13,044</b>
Deposits – Government and other institutions		
- HRK	150	125
- foreign currency	1,060	1,047
<b>Total Government and other institutions</b>	<b>1,210</b>	<b>1,172</b>
Deposits – foreign persons		
- HRK	727	873
- foreign currency	12,359	11,920
<b>Total foreign persons</b>	<b>13,086</b>	<b>12,793</b>
<b>Total term deposits</b>	<b>923,928</b>	<b>1,023,123</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**32. Loan liabilities**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Domestic banks	2,072	3,733
Paid loan fees related to future periods	-	(7)
<b>Total loan liabilities</b>	<b>2,072</b>	<b>3,726</b>

Liability toward HBOR amounted to HRK 2,072 thousand as at 31 December 2020 (2019: HRK 3,726 thousand). These funds are intended for granting loans to corporates and individuals in accordance with HBOR programs for the promotion of small and medium-sized entrepreneurs, tourism and agriculture, with an average interest rate of 2.0% (2019: 2.0%).

**33. Other liabilities**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Fees and commissions payables	99	307
Liabilities to employees	2,205	2,332
Liabilities for taxes and contributions	80	1,657
Liabilities to suppliers	815	929
Liabilities for prepayment on loans	3,478	3,540
Accrued loan interests and receivables discount	2,006	2,037
Operating lease liabilities	465	890
Premium for deposit insurance	1,204	1,190
Liabilities for transactions at POS terminals	225	240
Orders sent to the NCS (National Clearing System-NKS)	957	982
Liabilities for public housing	104	144
Collected deferred income	514	472
Liabilities for tax and surtax on savings interest	98	140
Bearer savings	113	113
Other liabilities	535	556
<b>Total other liabilities</b>	<b>12,898</b>	<b>15,529</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**34. Provisions**

<b>Description</b>	<b>31.12.2020.</b>	<b>31.12.2019.</b>
	<b>HRK ,000</b>	<b>HRK ,000</b>
Provisions for employees' income	706	691
Provisions for court disputes	124	3,975
Provisions for identified losses from assumed off-balance sheet contingent liabilities	277	264
Expected losses from assumed contingent liabilities	2,623	3,495
<b>Total provisions</b>	<b>3,730</b>	<b>8,425</b>

/i/ Changes in provisions are shown below:

<b>Description</b>	<b>2020.</b>	<b>2019.</b>
	<b>HRK ,000</b>	<b>HRK ,000</b>
<b>Balance at 1 January</b>	<b>8,425</b>	<b>7,682</b>
Increase in provisions for court disputes and employees' income (note 14)	175	409
Decrease in and utilisation of provisions for court disputes and employees' income (note 14)	(4,010)	(39)
Changes in provisions for contingent and assumed liabilities (note 14)	(860)	373
<b>Balance at 31 December</b>	<b>3,730</b>	<b>8,425</b>

/ii/ As at 31 December 2020 the Bank is actively engaged in 59 court proceedings against corporates and 64 court proceedings against individuals.

The Bank is conducting 2 procedures for the collection of property on which the Bank is registered as a fiduciary owner.

The Bank is conducting collection procedures for 38 cases in which bankruptcy procedures have been initiated against corporate debtors and 4 cases in which bankruptcy procedures have been initiated against individual debtors (consumers).

/iii/ Procedures in which the Bank was sued relate to litigations for payment and litigations for determination.

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**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

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**34. Provisions – continued**

In procedures for payment in 2020 there were three court cases that were more significant when the amount is concerned. Those were civil proceedings initiated by individuals who were granted loans in the Bank that were directly placed into capitalisation account of the joint stock company and also civil proceedings of the Republic of Croatia for payment. One of these disputes was terminated in favour of the Bank by a Supreme Court judgement, with the plaintiff filing a constitutional complaint against the Supreme Court's decision in early 2021. In the second-instance the judgement in favour of the Bank was rendered in which the plaintiff appealed to High Commercial Court. The court dispute with the Republic of Croatia ended with a court settlement.

The Bank regularly arranges allocation of disputes into relevant risk groups and, depending on the estimated outcome and in accordance with internal acts, makes provisions for court disputes which could result in potential outflow of funds.

For procedures initiated to establish there is no commitment to allocate procedures to risk groups and to make provisions.

In this group, procedures initiated by the shareholders of the Bank to challenge the decisions of the General Assembly stand out:

1. Decision of the General Assembly dated 10 February 2014 to reduce the share capital for HRK 92.642 million, to exclude the right to subscribe for new shares, to increase the share capital for HRK 72.734 million and to change partially the Company's Statute.  
In this case, a final verdict was issued in favour of the plaintiff and the Bank submitted a revision to the Supreme Court of the Republic of Croatia as an extraordinary remedy. It is not possible to estimate in what time frame and in what way will the Supreme Court will decide on the revision.
2. Decision of the General Assembly dated 2 July 2014 being the decision on the confirmation of the decisions of the General Assembly of 10 February 2014, decision on the increase in share capital for the amount of HRK 40 million and the decision on partial change of the Statute.

In this procedure a final verdict in favour of the Bank was delivered, validating the decision of 10 February 2014 to increase the share capital by HRK 72.734 million and the decision of 2 July 2014 to increase the share capital by HRK 40 million.

The plaintiff filed a motion for revision with the Supreme Court to which the Bank responded considering it to be completely unfounded. A decision on the motion has not yet been made. It is not possible to evaluate how long it will take the Supreme Court of the Republic of Croatia to decide on it and what that decision will be.

In these proceedings the Bank also obtained a final order on issuing the measure in accordance with Article 366.a of the Companies Act, protecting the effects of registration of the decision to increase the share capital by HRK 40 million. Against this order the plaintiff filed a motion for revision with the Supreme Court, as an extraordinary legal remedy. It is not possible to evaluate how long it will take the Supreme Court of the Republic of Croatia to decide on it and what that decision will be.

Against this order the Bank filed a motion for revision in the part in which its request for issuing a temporary measure protecting the effects of registration of the decision to increase the share capital by HRK 72.734 million was dismissed. It is not possible to evaluate how long it will take the Supreme Court of the Republic of Croatia to decide on it and what that decision will be.

In these proceedings the Bank is undertaking all available actions to protect the interests of the shareholders and of the Bank as well as to protect the public interest and is regularly informing the supervisory body on the status of the matter.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**35. Hybrid instruments**

Hybrid instruments are special instruments of investments into capital, stakes without payment possibilities before the expiry of the contracted period, except for entry into the equity, respectively for the conversion of hybrid instruments into shares. According to CNB regulations these instruments affect the increase of the Bank's regulatory capital when calculating capital adequacy. Hybrid instruments amounted to HRK 58,837 thousand as of 31 December 2020 (2019: HRK 53,800 thousand).

The balance includes 13 hybrid instruments that mature from April 2021 to May 2023. Instruments are subject to linear depreciation and their non-depreciated value is included in the calculation of regulatory capital: HRK 9,977 thousand as at 31 December 2020 (2019: HRK 20,757 thousand).

**36. Share capital**

The Bank's share capital as at 31 December 2019 amounted to HRK 176,678 thousand and is divided into 17,570,409 shares, of which 17,559,585 are ordinary shares with a nominal value of HRK 10 and 10,824 are preferred shares with a nominal value of HRK 100.

1,328,233 ordinary shares and 10,824 preferred shares were quoted on the Zagreb Stock Exchange. Pursuant to the Decision of the General Assembly dated 14 December 2020 all the shares of the Bank that had been listed on the Zagreb Stock Exchange were withdrawn from the regulated market. Preferred shares are entitled to a dividend of 7% of the nominal value and a difference up to dividends entitled to the holders of ordinary shares.

**Regulatory capital**

The regulatory capital of the Bank and the capital adequacy rate for 2020 were calculated in accordance with the requirements of the Decision on IT solutions for the submission of reports of credit institutions in accordance with EU regulations (Official Gazette no. 9/2018 and 120/2018). The said Decision is in conformity with the provisions of the Implementing Regulation of the EU Commission EU no. 680/2014 and Regulation no. 2018/1624. As at 31 December 2020 the regulatory capital of the Bank amounted to HRK 215,173 thousand (2019: HRK 196,144 thousand) while the capital adequacy rate amounted to 20.55% (2019: 18.40%) in relation to the prescribed minimum rate of 12%.

Description	2020. HRK,000	2019. HRK,000
<b>Regulatory capital</b>		
<i>Share capital</i>	205,196	175,387
<i>Regular share capital</i>	205,196	175,387
Issued stock capital	175,436	175,436
Retained profit (excluding profit for the year)	-	(20,517)
Net profit/(loss) for the year	29,502	20,893
Other reserves	376	-
<i>Deductions in line with CNB regulations</i>		
Intangible assets	(105)	(196)
Impairment of CET1 due to prudential filters	(13)	(229)
<b>Total regular share capital</b>	<b>205,196</b>	<b>175,387</b>
<b>Additional share capital</b>	<b>0</b>	<b>0</b>
<b>Share capital</b>	<b>205,196</b>	<b>175,387</b>
<b>Supplementary capital</b>	<b>9,977</b>	<b>20,757</b>
<b>Total regulatory capital</b>	<b>215,173</b>	<b>196,144</b>
<b>Total amount of risk exposure</b>	<b>1,047,180</b>	<b>1,066,171</b>
<b>Capital adequacy rate</b>	<b>20.55%</b>	<b>18.40%</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**37. Contingent liabilities and commitments**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Performance guarantees		
- HRK	32,851	39,134
- foreign currency	764	338
Payment guarantees		
- HRK	4,526	4,948
- foreign currency	5,351	5,338
Letters of credit		
- foreign currency	-	-
Granted unused overdrafts	283,926	270,411
Other	2,070	2,255
<b>Total contingent liabilities and commitments</b>	<b>329,488</b>	<b>322,424</b>
Provisions for contingent liabilities and commitments	(277)	(264)
<b>Total net contingent liabilities and commitments</b>	<b>329,211</b>	<b>322,160</b>

**38. Cash and cash equivalents**

Description	31.12.2020. HRK ,000	31.12.2019. HRK ,000
Cash	663,658	446,795
Placements with banks with maturity up to 3 months	15,207	36,032
<b>Total cash and cash equivalents</b>	<b>678,865</b>	<b>482,827</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**39. Funds for and on behalf of third parties**

The Bank manages funds for and on behalf of third parties in the form of loans mainly. These funds are recorded separately from the Bank's funds. Income and expenses from these funds were credited or charged to appropriate sources and the Bank did not bear the risk associated to these operations. For its services the Bank charged a fee that was charged to these funds.

Description	2020.	2019.
	HRK ,000	HRK ,000
Total sources	5,767	5,721
Less: assets	(5,767)	(5,721)
<b>Unused funds</b>	<b>-</b>	<b>-</b>

**40. Transactions with persons in a special relation with the Bank and their related parties**

Persons in a special relation with the credit institution are:

- 1) Credit institution's shareholders owning 5% or more of shares with voting rights at the credit institution's general assembly meeting,
- 2) Members of the management board and supervisory board and procurators of the credit institution,
- 3) Persons responsible for the work of control functions, persons responsible for business with corporates and persons responsible for business with individuals
- 4) Legal entities in which the credit institution has a participating interest
- 5) Legal entities being members of the management board or the supervisory board or procurators,
- 6) Legal entities whose board member has 10% or more of the voting rights of the credit institution,
- 7) Member of the management board or the supervisory board or a procurator of the parent company or of a subsidiary,
- 8) Third persons acting for the account of persons referred to in points 1) to 7)

Persons in a special relation with the credit institution shall also be persons connected with such persons defined as follows: two or more natural or legal persons and their immediate family members, who, unless it is shown otherwise, constitute a single risk for the credit institution because:

- 1) One of them has, directly or indirectly, control over the other or the others or
- 2) They are so interconnected that there is a high likelihood that the economic and financial condition of one or more persons will deteriorate or improve as a result of the deterioration or improvement of the economic and financial conditions of one person, especially if between them there is a possibility of transferring loss, profit, creditworthiness or if difficulties in funding sources, or settlement of a person's obligations, can cause difficulties in sources of funding, or settlement of the obligations of one person or other persons.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**40. Transactions with persons in a special relation with the Bank and their related parties – continued**

Immediate family members are:

- 1) Spouse or a person living in a common household who, according to a special law, has the position equal to that in a marital community,
- 2) Children or adopted children of the person or children or adopted children of the person from item 1 of this paragraph without full legal capacity and
- 3) Other persons without full legal capacity and placed under custody of that person.

Credit institution may enter into a legal arrangement with the person in a special relationship with the Bank and persons connected with such persons, only if such an arrangement is agreed under conditions that are not more favourable than the usual conditions of a credit institution.

The exposure of a credit institution to persons in a special relationship with the Bank and persons connected with such persons that exceeds HRK 50,000 thousand may incur or increase only by unanimous approval of all the members of the Bank's Management Board and with the prior approval of the Bank's Supervisory Board. Exceptionally, member of the Management Board or Supervisory Board cannot vote on the approval of exposure, if the exposure would relate to them, or persons connected with them.

/i/ Receivables and payables of related parties at 31 December 2020 are shown below:

				2020. HRK ,000
Related parties	Loans and receivables	Contingent liabilities and commitments	Deposits and hybrids	Other liabilities
Shareholders with over 5% of ordinary shares and their related parties	2,187	1,621	374,527	31
Supervisory Board	12	112	3,739	51
Management Board	36	78	304	95
Other key persons with related parties	378	233	2,161	153
Legal entities in which the Bank has participating interest	27,458	-	-	-
Member of the Management Board of a Subsidiary	854	40	478	34
<b>TOTAL</b>	<b>30,925</b>	<b>2,084</b>	<b>381,209</b>	<b>364</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET – continued**

**40. Transactions with persons in a special relation with the Bank and their related parties – continued**

/ii/ Receivables and payables of related parties at 31 December 2019 are shown below:

				2019. HRK ,000
Related parties	Loans and receivables	Contingent liabilities and commitments	Deposits and hybrids	Other liabilities
Shareholders with over 5% of ordinary shares and their related parties	2,462	995	174,906	28
Supervisory Board	1,717	109	3,964	51
Management Board	234	78	438	81
Persons responsible for control functions with corporates and individuals	540	195	2,117	131
Legal entities in which the Bank has participating interest	30,767	-	12	-
Member of the Management Board of a Subsidiary	927	-	-	30
<b>TOTAL</b>	<b>36,647</b>	<b>1,377</b>	<b>181,437</b>	<b>321</b>

/iii/ Income and expenses with related persons for 2020 and 2019 are shown below:

Description	2020. HRK ,000	2019. HRK ,000
<b>Income</b>		
Shareholders with over 5% of ordinary shares and their related parties	7,297	3,778
Members of the Management Board and their related persons	6	5
Members of the Supervisory Board and their related persons	17	61
Other (employees and their related persons)	31	89
Legal entities in which the Bank has participating interest	-	3
Member of the Management Board of a Subsidiary	38	40
<b>Total income</b>	<b>7,389</b>	<b>3,976</b>
<b>Expenses</b>		
Shareholders with over 5% of ordinary shares and their related parties	3,098	2,971
Members of the Management Board and their related persons	1,156	993
Members of the Supervisory Board and their related persons	624	562
Other key persons with related parties	1,906	1,631
Legal entities in which the Bank has participating interest	6	-
Member of the Management Board of a Subsidiary	422	378
<b>Total expenses</b>	<b>7,212</b>	<b>6,535</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**40. Transactions with persons in a special relation with the Bank and their related parties – continued**

/iv/ Remuneration to the management board and other key personnel are shown below:

Persons that the credit institutions considers to be the key personnel are persons responsible for the controlling functions, the person authorised for the prevention of money laundering, persons responsible for dealing with corporate clients and the individuals, the Chief financial office, the person responsible for treasury operations, the procurator and other persons holding key functions that enable them to have a significant influence on the management of the credit institution, but who are neither members of the management board nor members of the supervisory board.

<u>Description</u>	<u>31.12.2020.</u>	<u>31.12.2019.</u>
	<u>HRK ,000</u>	<u>HRK ,000</u>
Management Board		
Net salaries	609	603
Taxes and contributions	531	537
Total:	1,140	1,140
Other key personnel		
Net salaries	1,052	1,044
Taxes and contributions	793	791
Total:	1,845	1,835
<b>Total</b>	<b>2,955</b>	<b>2,975</b>

**41. Interest risk**

Interest risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Therefore the period in which the interest rate is fixed for a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure, based either on the contractual maturity date of the financial instrument or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest bearing are grouped in the 'Interest free' category.

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**41. Interest risk - continued**

2020.	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Interest free	TOTAL
	HRK ,00 0	HRK ,00 0	HRK ,000	HRK ,00 0	HRK ,00 0	HRK ,000	HRK ,00 0
<b>ASSETS</b>							
Cash	-	-	-	-	-	663,658	663,658
Receivables from CNB	-	-	141,385	-	-	-	141,385
Placements with banks	2,355	16,652	307	-	-	-	19,314
Financial assets through other comprehensive income	-	-	-	-	-	150	150
Financial assets at depreciated cost	20,000	20,000	137,721	127,631	256,185	-	561,537
Financial assets valued at fair value	177	-	-	11,270	-	-	11,447
Loans and advances to customers	455,862	397,986	77,803	119,941	135,010	-	1,186,602
Investments in subsidiary	-	-	-	-	-	0	0
Property, plant and equipment	-	-	-	-	-	24,999	24,999
Intangible assets	-	-	-	-	-	105	105
Foreclosed assets and assets held for sale	-	-	-	-	-	25,739	25,739
Other assets	-	-	-	-	-	11,315	11,315
<b>Total assets</b>	<b>478,394</b>	<b>434,638</b>	<b>357,216</b>	<b>258,842</b>	<b>391,195</b>	<b>725,966</b>	<b>2,646,251</b>
<b>LIABILITIES</b>							
Due to banks	1	-	-	-	-	-	1
Demand deposits	1,197	-	1,442,032	-	-	-	1,443,229
Term deposits	102,059	177,842	512,813	121,448	9,766	-	923,928
Hybrid instruments	-	-	43,458	10,379	-	-	53,837
Liabilities for loans received	-	114	294	784	880	-	2,072
Other liabilities	-	-	-	-	-	12,898	12,898
Provisions	-	-	-	-	-	3,730	3,730
<b>Total liabilities</b>	<b>103,257</b>	<b>177,956</b>	<b>1,998,597</b>	<b>132,611</b>	<b>10,646</b>	<b>16,628</b>	<b>2,439,695</b>
<b>CAPITAL</b>							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	376	376
Profit for the year	-	-	-	-	-	29,502	29,502
Retained profit /(loss)	-	-	-	-	-	-	-
<b>Total capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>206,556</b>	<b>206,556</b>
<b>Total liabilities and capital</b>	<b>103,257</b>	<b>177,956</b>	<b>1,998,597</b>	<b>132,611</b>	<b>10,646</b>	<b>223,184</b>	<b>2,646,251</b>
<b>Net assets/liabilities and capital</b>	<b>375,137</b>	<b>256,682</b>	<b>(1,641,381)</b>	<b>126,231</b>	<b>380,549</b>	<b>502,782</b>	<b>-</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**41. Interest risk - continued**

2019.	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Interest free	TOTAL
	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
<b>ASSETS</b>							
Cash	-	-	-	-	-	446,795	446,795
Receivables from CNB	-	-	163,276	-	-	-	163,276
Placements with banks	20,035	27,943	671	-	-	-	48,649
Financial assets through other comprehensive income	-	-	-	-	-	150	150
Financial assets at depreciated cost	35,000	58,901	136,869	27,931	44,883	-	303,584
Financial assets at fair value through income statement	5,369	2,234	3,723	82,795	134,320	-	228,441
Loans and advances to customers	392,839	393,873	65,361	109,587	150,713	-	1,112,373
Investments in subsidiary	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	27,985	27,985
Intangible assets	-	-	-	-	-	196	196
Foreclosed assets	-	-	-	-	-	66,080	66,080
Other assets	-	-	-	-	-	7,350	7,350
<b>Total assets</b>	<b>453,243</b>	<b>482,951</b>	<b>369,900</b>	<b>220,313</b>	<b>329,916</b>	<b>548,556</b>	<b>2,404,879</b>
<b>LIABILITIES</b>							
Due to banks	173	-	-	-	-	-	173
Demand deposits	1,058	-	1,121,991	-	-	-	1,123,049
Term deposits	115,301	187,552	580,952	129,020	10,298	-	1,023,123
Hybrid instruments	-	-	-	43,420	10,380	-	53,800
Liabilities for loans received	1,227	113	338	790	1,258	-	3,726
Other liabilities	-	-	-	-	-	15,529	15,529
Provisions	-	-	-	-	-	8,425	8,425
<b>Total liabilities</b>	<b>117,759</b>	<b>187,665</b>	<b>1,703,281</b>	<b>173,230</b>	<b>21,936</b>	<b>23,954</b>	<b>2,227,825</b>
<b>CAPITAL</b>							
Share capital	-	-	-	-	-	176,678	176,678
Own shares	-	-	-	-	-	-	-
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-	-
Capital gain	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	20,893	20,893
Retained profit	-	-	-	-	-	(20,517)	(20,517)
<b>Total capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>177,054</b>	<b>177,054</b>
<b>Total liabilities and capital</b>	<b>117,759</b>	<b>187,665</b>	<b>1,703,281</b>	<b>173,230</b>	<b>21,936</b>	<b>201,008</b>	<b>2,404,879</b>
<b>Net assets/liabilities and capital</b>	<b>335,484</b>	<b>295,286</b>	<b>(1,333,381)</b>	<b>47,083</b>	<b>307,980</b>	<b>347,548</b>	<b>-</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**41. Interest risk - continued**

Below table provides summary of effective interest rates for interest bearing assets and liabilities:

	<b>2020.</b>	<b>2019.</b>
	<b>%</b>	<b>%</b>
<b>Assets</b>		
Receivables from CNB	-0.7-0	-0.6-0
Placements with banks	-0.5-0.12	-0.5-1.98
Financial assets through other comprehensive income	-	-
Financial assets at depreciated cost	-0.06-5.875	-0.05-6.75
Loans and advances to customers	1.6-11.00	1.6-11.00
<b>Liabilities</b>		
Due to banks (HBOR)	1.00-3.00	1.00-3.00
Demand deposits	0.00-0.01	1.00-0.01
Term deposits	0.00-6.5	0.00-6.5

**42. Fair value of financial assets and liabilities**

Fair value is the amount at which funds can be exchanged or liabilities settled in the best interest of all parties. Since market prices for the major part of the Bank's financial assets and liabilities are not available, the fair value of these items is based on the estimates of the Management Board according to the type of assets and liabilities. According to the estimation of the Management Board, the market value is not materially different from the carrying value of all categories of assets and liabilities.

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

The Bank has no assets, liabilities and commitments in any other country other than Croatia, excluding current foreign currency accounts and term deposits with foreign banks in the European Union and insignificant funds with banks outside the European Union.

**44. Liquidity risk**

Liquidity risk is the potential exposure of the Bank in connection with the acquisition of funds required by the Bank to meet its obligations under financial instruments. The Bank maintains its liquidity in accordance with regulations prescribed by the Croatian National Bank.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**44. Liquidity risk - continued**

Remaining maturity of the Bank's assets and liabilities as at 31 December is shown below:

	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	TOTAL
2020.	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
<b>ASSETS</b>						
Cash	663,658	-	-	-	-	663,658
Receivables from CNB	141,385	-	-	-	-	141,385
Placements with banks	2,355	16,652	307	-	-	19,314
Financial assets through other comprehensive income	-	-	-	-	150	150
Financial assets at depreciated cost	20,000	20,000	137,721	127,631	256,185	561,537
Financial assets at fair value through income statement (FOB and FOP)	177	-	11,270	-	-	11,447
Loans and advances to customers	455,862	397,986	77,803	119,941	135,010	1,186,602
Investments in subsidiary	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	24,999	24,999
Intangible assets	-	-	-	-	105	105
Foreclosed assets and assets held for sale	-	-	-	-	25,739	25,739
Other assets	2,942	7,921	452	-	-	11,315
<b>Total assets</b>	<b>1,286,379</b>	<b>442,559</b>	<b>227,553</b>	<b>247,572</b>	<b>442,188</b>	<b>2,646,251</b>
<b>LIABILITIES</b>						
Due to banks	1	-	-	-	-	1
Demand deposits	1,443,229	-	-	-	-	1,443,229
Term deposits	101,617	178,219	512,311	122,446	9,335	923,928
Hybrid instruments	-	-	43,458	10,379	-	53,837
Liabilities for loans received	-	114	294	784	880	2,072
Other liabilities	12,868	-	27	-	3	12,898
Provisions	2,949	86	669	11	15	3,730
<b>Total liabilities</b>	<b>1,560,664</b>	<b>178,419</b>	<b>556,759</b>	<b>133,620</b>	<b>10,233</b>	<b>2,439,695</b>
<b>CAPITAL</b>						
Share capital	-	-	-	-	176,678	176,678
Unrealised profit/loss from value adjustment of financial assets through other comprehensive income	-	-	-	-	-	-
Reserves	-	-	-	-	376	376
Profit for the year	-	-	29,502	-	-	29,502
Retained profit/(loss)	-	-	-	-	-	-
<b>Total capital</b>	<b>-</b>	<b>-</b>	<b>29,502</b>	<b>-</b>	<b>177,054</b>	<b>206,556</b>
<b>Total liabilities and capital</b>	<b>1,560,664</b>	<b>178,419</b>	<b>586,261</b>	<b>133,620</b>	<b>187,287</b>	<b>2,646,251</b>
<b>Net assets/liabilities and capital</b>	<b>(274,285)</b>	<b>264,140</b>	<b>(358,708)</b>	<b>113,952</b>	<b>254,901</b>	<b>-</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**44. Liquidity risk - continued**

	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	TOTAL
2019.	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
<b>ASSETS</b>						
Cash	446,795	-	-	-	-	446,795
Receivables from CNB	163,276	-	-	-	-	163,276
Placements with banks	20,035	27,943	671	-	-	48,649
Financial assets through other comprehensive income	-	-	-	-	150	150
Financial assets at depreciated cost	35,000	58,901	136,869	27,931	44,883	303,584
Financial assets at fair value through income statement	5,369	2,234	3,723	82,795	134,320	228,441
Loans and advances to customers	392,839	393,873	65,361	109,587	150,713	1,112,373
Investments in subsidiary	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	27,985	27,985
Intangible assets	-	-	-	-	196	196
Foreclosed assets	-	-	-	-	66,080	66,080
Other assets	1,911	5,145	294	-	-	7,350
<b>Total assets</b>	<b>1,065,225</b>	<b>488,096</b>	<b>206,918</b>	<b>220,313</b>	<b>424,327</b>	<b>2,404,879</b>
<b>LIABILITIES</b>						
Due to banks	173	-	-	-	-	173
Demand deposits	1,123,049	-	-	-	-	1,123,049
Term deposits	105,299	197,106	579,150	129,981	11,587	1,023,123
Hybrid instruments	-	-	-	43,420	10,380	53,800
Loabilities for loans received	1,862	75	224	548	1,017	3,726
Other liabilities	14,286	1,243	-	-	-	15,529
Provisions	7,092	202	1,031	100	-	8,425
<b>Total liabilities</b>	<b>1,251,761</b>	<b>198,626</b>	<b>580,405</b>	<b>174,049</b>	<b>22,984</b>	<b>2,227,825</b>
<b>CAPITAL</b>						
Share capital	-	-	-	-	176,678	176,678
Own shares	-	-	-	-	-	-
Unrealised profit/loss from value adjustment of financial assets through other comprehensive income	-	-	-	-	-	-
Capital gain	-	-	-	-	-	-
Reserves	-	-	-	-	-	-
Profit for the year	-	-	-	-	20,893	20,893
Retained profit/(loss)	-	-	-	-	(20,517)	(20,517)
<b>Total capital</b>					<b>177,054</b>	<b>177,054</b>
<b>Total liabilities and capital</b>	<b>1,251,761</b>	<b>198,626</b>	<b>580,405</b>	<b>174,049</b>	<b>200,038</b>	<b>2,404,879</b>
<b>Net assets/liabilities and capital</b>	<b>(186,536)</b>	<b>289,470</b>	<b>(373,487)</b>	<b>46,264</b>	<b>224,289</b>	<b>-</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**45. Credit risk**

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Risks are monitored regularly and are subject to an annual or more frequent review.

Exposure to credit risk is managed by the Bank through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The primary purpose of credit commitments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable commitments that the Bank will settle the payment to third parties if customers are not able to, bear the same credit risk as loans.

Contingent credit commitments represent undrawn portions of authorized loans or guarantees. According to credit risk related to contingent credit commitments, the Bank takes on potential loss exposure to the amount equal to total undrawn contingent commitments. However, possible loss amount is lower than total amount of undrawn contingent commitments, as most of the contingent credit commitments are related to maintenance of specific credit standards by customers. The Bank monitors the term of maturity of contingent credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments..

Exposure to credit risk related to balance sheet records is as follows:

	31.12.2020.	31.12.2019.
	HRK,000	HRK,000
Current account with CNB and other banks	614,296	398,483
Receivables from CNB	141,385	163,276
Placements with banks	19,314	48,649
Financial assets through other comprehensive income	150	150
Financial assets at depreciated cost	561,537	303,584
Financial assets at fair value through income statement	11,447	228,441
Loans and advances to customers	1,186,602	1,112,373
Other assets	11,315	7,350
<b>Total</b>	<b>2,546,046</b>	<b>2,262,306</b>

Exposure to credit risk related to off-balance sheet records is as follows:

	31.12.2020.	31.12.2019.
	HRK'000	HRK'000
Guarantees	43,492	49,758
Unused placements and other	285,996	272,666
<b>Total</b>	<b>329,488</b>	<b>322,424</b>
<b>Reserves</b>	<b>(2,899)</b>	<b>(3,759)</b>
<b>Total off-balance</b>	<b>326,589</b>	<b>318,665</b>
<b>Total exposure to credit risk</b>	<b>2,872,635</b>	<b>2,580,971</b>

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**45. Credit risk - continued**

In the table above the Bank's highest exposure to credit risk is stated as at 31 December 2020 and 31 December 2019, without collaterals taken into consideration. Balance sheet records stated in the table above are presented at net carrying value less provisions for impairment, as shown in the balance sheet. Off-balance sheet records are based on the approved amounts, except for the undrawn portions of authorized loans and limits on credit cards which are based on the undrawn approved amounts.

41.3% (2019: 43.1%) of the highest exposure to credit risk arises from loans and receivables from banks and clients. Undrawn portions of authorized loans, credit card limits and other items represent 9.95% (2019: 10.5%) of the Bank's total exposure.

The Management Board is confident in its ability to further monitor and manage the Bank's credit risk, which arises from the loan portfolio and taken over liabilities due to the following reasons:

- 88.8% (2019: 86.7%) of loans and receivables from clients are classified in the risk category A,
- 87% (2019: 86%) of gross loans and receivables from clients are loans that are not yet due and not impaired,
- 11.2% (2019: 13.3%) of gross loans and receivables from clients are classified as impaired loans.

Loans and receivables from clients are insured with various types of collateral. The Management Board considers the loans and receivables from clients to be sufficiently recoverable by provisions for impairment and by collaterals.

**Impairment**

Classification	31.12.2020.		31.12.2019.	
	HRK,000		HRK,000	
	Loans and receivables from customers	Provisions for impairment	Loans and receivables from customers	Provisions for impairment
A	1,151,518	14,684	1,063,274	13,940
B1	26,450	6,214	33,750	3,201
B2	27,658	12,116	29,538	12,725
B3	69,725	55,735	81,289	65,612
C	21,232	21,232	17,907	17,907
<b>Total</b>	<b>1,296,583</b>	<b>109,981</b>	<b>1,225,758</b>	<b>113,385</b>

- Provisions for impairment of loans and receivables from clients classified in the risk category A relate to general provision,
- Provisions for impairment stated as a percentage of gross loans and receivables from clients amount to 8.5% (2019: 9.2%),
- Decrease in provisions during 2020 was a result of the collection of risk placements, new evaluation of placements and reallocation of part of the risk category C portfolio to off-balance sheet records.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**45. Credit risk - continued**

**Uncertainty related to the valuation of property collateral**

Most housing loans are insured with mortgages on residential property. Also, a significant part of corporate portfolios is insured with real estate mortgages. The Real estate market in Croatia has not been liquid for several years, but despite the drop in prices, a relatively small number of transactions have been realised. Decrease in prices and non-liquidity of the real estate market have a negative impact on the recoverability of the assets and the expected time of its realisation in cases when borrowers have financial difficulties and the Bank would normally rely on collection through collaterals.

**Rescheduled loans and receivables**

The Bank has rescheduled certain loans to clients during the year in order to increase the possibility for their final repayment. This measure was taken as a response to the deteriorating financial position of borrowers, that is, as a preventative measure. Whenever possible, the Bank has tried to improve its position by obtaining additional collaterals. Restructured loans are constantly monitored and in case of additional deterioration or breach of contractual obligations, necessary measures for collection of receivables are considered.

**Loans and receivables from customers: impact analysis**

<i>Granted loans</i>	31.12.2020. HRK,000	31.12.2019. HRK,000
Neither due nor impaired	1,133,982	1,054,588
Due and not impaired	10,437	8,686
Impaired loans	152,164	162,484
<b>Gross total</b>	<b>1,296,583</b>	<b>1,225,758</b>
Provisions for impairment	(109,981)	(113,385)
<b>Net amount</b>	<b>1,186,602</b>	<b>1,112,373</b>

Total provisions of the Bank for impairment of loans and receivables from clients amounted to HRK 109,981 thousand (2019: HRK 113,385 thousand), out of which the amount of HRK 95,297 thousand (2019: HRK 99,445 thousand) related to specific provisions for impairment while the remaining amount of HRK 14,684 thousand related to general provisions (2019: HRK 13,940 thousand).

**a) *Outstanding, not impaired loans and receivables from customers***

Outstanding, not impaired loans and receivables from customers are being monitored regularly and reviewed in detail for the purpose of early detection of any irregularities or warning signs in order to take timely actions.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**45. Credit risk - continued**

***b) Overdue, not impaired loans and receivables from customers***

Loans and receivables from customers which are overdue for up to 90 days are not considered impaired unless otherwise indicated. It is also possible that the customers are in delay for over 90 days but due to other factors there is no need for impairment. The gross amount of overdue, not impaired loans and receivables from customers is shown below:

Description	31.12.2020. HRK,000	31.12.2019. HRK,000
Due within 30 days	8,350	6,948
Due in 31-60 days	1,357	1,129
Due in 61-90 days	730	609
Due over 90 days	-	-
<b>TOTAL</b>	<b>10,437</b>	<b>8,686</b>

It is not practical to present the estimated value of the collateral.

***c) Impaired loans and receivables from customers***

Overview of loans and receivables from customers for which an individual impairment has been recognised, net provisions for impairment, is shown below:

Description	31.12.2020. HRK'000	31.12.2019. HRK'000
Gross impaired loans	152,164	162,484
Impairment	(95,297)	(99,445)
<b>Net impaired loans</b>	<b>56,867</b>	<b>63,039</b>

It is not practical to present the estimated value of the collateral.

The Management Board considers the impaired loans and receivables from customers to be adequately covered by collaterals and impairment provisions.

**46. Market risk**

Market risk is defined as the direct effect of changes in market prices on the Bank's income statement and the balance sheet. Basic risk factors are:

- Currency risk
- Interest rate risk,
- Securities price risk,
- Concentration risk
- Operational risk

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**46.1. Currency risk**

Currency risk management is performed with the aim of minimizing losses that may occur as a result of open FX position per currency and as a result of foreign exchange balance mismatching from the point of remaining maturity by key currencies.

The Bank is exposed to currency risk through transactions in foreign currencies that have effect on its financial position and cash flows.

The following table shows the analysis of main foreign currencies related to the Bank currency risk exposure. Other foreign currencies are comprised in 'Other currencies'. The Bank monitors its foreign currency risk exposure daily in accordance with legislation prescribed by the CNB and internally set limits. The Bank endeavours to match its assets and liabilities in foreign currencies in order to avoid exposure to currency risk.

Foreign currency assets and liabilities of the Bank as at 31 December 2020 are shown below:

2020.	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
<b>ASSETS</b>							
Cash	156,458	10,674	18,884	-	186,016	477,642	663,658
Receivables from CNB	-	-	-	-	-	141,385	141,385
Placements with banks	4,107	6,139	9,068	-	19,314	-	19,314
Financial assets through other	-	-	-	-	-	150	150
Financial assets at depreciated cost	124,777	20,884	-	54,442	200,103	361,434	561,537
Financial assets at fair value through income statement(FOB	11,351	-	-	-	11,351	96	11,447
Loans and advances to customers	7,228	-	-	748,954	756,182	430,420	1,186,602
Investment into associate	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	24,999	24,999
Intangible assets	-	-	-	-	-	105	105
Foreclosed assets and assets held	-	-	-	-	-	25,739	25,739
Other assets	1,018	-	-	1,357	2,375	8,940	11,315
<b>Total assets</b>	<b>304,939</b>	<b>37,697</b>	<b>27,952</b>	<b>804,753</b>	<b>1,175,341</b>	<b>1,470,910</b>	<b>2,646,251</b>
<b>LIABILITIES</b>							
Due to banks	-	-	-	-	-	1	1
Demand deposits	487,867	21,767	21,103	-	530,737	912,492	1,443,229
Term deposits	596,505	15,817	6,312	-	618,634	305,294	923,928
Hybrid instruments	-	-	-	3,001	3,001	50,836	53,837
Loan liabilities	-	-	-	2,072	2,072	-	2,072
Other liabilities	2,709	-	-	-	2,079	10,189	12,898
Provisions	-	-	-	-	-	3,730	3,730
<b>Total liabilities</b>	<b>1,087,081</b>	<b>37,584</b>	<b>27,415</b>	<b>5,073</b>	<b>1,157,153</b>	<b>1,282,542</b>	<b>2,439,695</b>
<b>CAPITAL</b>							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets held for	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	29,502	29,502
Reserves	-	-	-	-	-	376	376
Retained profit / (loss)	-	-	-	-	-	-	-
<b>Total capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>206,556</b>	<b>206,556</b>
<b>Total liabilities and capital</b>	<b>1,087,081</b>	<b>37,584</b>	<b>27,415</b>	<b>5,073</b>	<b>1,157,153</b>	<b>1,489,098</b>	<b>2,646,251</b>
<b>Net assets/liabilities and capital</b>	<b>(782,142)</b>	<b>113</b>	<b>537</b>	<b>799,680</b>	<b>18,188</b>	<b>(18,188)</b>	<b>-</b>

**KARLOVAČKA BANKA d.d.**  
**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**For the year ended 31 December 2020**

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**46.1. Currency risk - continued**

Foreign currency assets and liabilities of the Bank as at 31 December 2019 are shown below:

2019.	EUR	USD	Other currencie s	HRK with currency clause	Total foreign currency equivalent s	HRK	Total
	HRK ,00 0	HRK ,00 0	HRK ,00 0	HRK ,00 0	HRK ,000	HRK ,00 0	HRK ,00 0
<b>ASSETS</b>							
Cash	103,851	35,848	16,217	-	155,916	290,879	446,795
Receivables from CNB	-	-	-	-	-	163,276	163,276
Placements with banks	4,055	35,143	9,451	-	48,649	-	48,649
Financial assets through other comprehensive income	-	-	-	-	-	150	150
Financial assets at depreciated cost	101,306	-	-	48,339	149,645	153,939	303,584
Financial assets at fair value through income statement	60,782	-	-	-	60,782	167,659	228,441
Loans and advances to customers							
Investment into associate	100,114	-	-	656,304	756,418	355,955	1,112,373
Property, plant and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	27,985	27,985
Foreclosed assets and assets	-	-	-	-	-	196	196
Other assets	-	-	-	-	-	66,080	66,080
<b>Total assets</b>	<b>370,990</b>	<b>70,991</b>	<b>25,668</b>	<b>705,672</b>	<b>1,173,321</b>	<b>1,231,558</b>	<b>2,404,879</b>
<b>LIABILITIES</b>							
Due to banks	-	-	-	-	-	173	173
Demand deposits	292,235	7,786	17,159	-	317,180	805,869	1,123,049
Term deposits	669,919	28,675	6,704	-	705,298	317,825	1,023,123
Hybrid instruments	-	-	-	2,963	2,963	50,837	53,800
Loan liabilities	-	-	-	3,726	3,726	-	3,726
Other liabilities	978	54	-	-	1,032	14,497	15,529
Provisions	-	-	-	-	-	8,425	8,425
<b>Total liabilities</b>	<b>963,132</b>	<b>36,515</b>	<b>23,863</b>	<b>6,689</b>	<b>1,030,199</b>	<b>1,197,626</b>	<b>2,227,825</b>
<b>CAPITAL</b>							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss from valu adjustment of financial assets held for sale							
Profit for the year	-	-	-	-	-	20,893	20,893
Retained profit / (loss)	-	-	-	-	-	(20,517)	(20,517)
<b>Total capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>177,054</b>	<b>177,054</b>
<b>Total liabilities and capital</b>	<b>963,132</b>	<b>36,515</b>	<b>23,863</b>	<b>6,689</b>	<b>1,030,199</b>	<b>1,374,680</b>	<b>2,404,879</b>
<b>Net assets/liabilities and</b>	<b>(592,142)</b>	<b>34,476</b>	<b>1,805</b>	<b>698,983</b>	<b>143,122</b>	<b>(143,122)</b>	<b>-</b>

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**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

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**46.1. Currency risk - continued**

The currency risk management system is determined by the extent of the Bank's business in foreign exchange trading which does not assume trading for speculative purpose. The aim of the Bank is to maintain the balanced position in terms of minimizing the impact of open position on the operating result.

Stress tests related to this risk are indirectly involved through the liquidity risk testing and also in cases of announced potential changes in regulations to the extent that it directly or indirectly affects the amount of an open foreign exchange position of the Bank.

**46.2. Interest rate risk**

Interest rate risk refers to the sensitivity of the Bank's income and market value of the Bank's capital to changes in interest rates.

Interest rate risk management policy is adopted and implemented by the Bank in order to protect and minimize potential adverse effects on its financial result (net interest income) as well as the economic value of the Bank's portfolio, which could occur due to changes in interest rates.

Policy of interest rate risk management takes into consideration the short term as well as the long term focus when managing this risk.

*Short term focus*

In order to protect and minimise potential adverse effects on its financial result (net interest income), the Bank uses a re-pricing model (GAP analysis). For this purpose, nominal and weighted GAP's values are determined for each period as well as cumulatively in the period up to 1 year in all major currencies, and then for all currencies in total. The weighted value is considered in relation to the annual level of net interest income.

*Long term focus*

In order to protect and minimise the potential negative effects on the economic value of the Bank's portfolio, the Bank uses a simplified calculation of estimates of economic value by applying the standard interest rate shock on the positions in all major currencies and all currencies in total, and in the manner prescribed by the CNB in its applicable regulation.

In order to minimise the potential impact of changes in interest rates on net interest income and the economic value, the following objectives as well as constraints were set by the Policy:

1. Gradual decrease of existing net weighted positions in all major currencies and in total, with the aim of reducing possible changes in annual net interest income to a maximum level of 10%.  
Maximum changes in economic value of the Bank's portfolio, as a result of the application of the standard interest rate shock which is expressed as a ratio set of change in economic value and the liable capital must not be greater than 10%.

**46.3. Securities price risk**

Objectives of investments in investment portfolio are:

1. To ensure a satisfactory structure of assets in terms of the liquidity level
2. To enable the provision of repo loans or loans based on eligible collaterals in the domestic interbank market
3. To achieve an acceptable rate of return

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**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

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**46.3. Securities price risk - continued**

When purchasing a particular security, the Bank is guided by the principle of minimising:

- concentration risk
- market risk
- credit risk
- liquidity risk
- interest risk

In order to minimise the above mentioned risks, the Bank has established appropriate limits for each mentioned risk.

**46.4. Concentration risk**

Concentration risk management is achieved through:

- Defined target structure of investment portfolios of which the bulk of the portfolio or 75% consists of debt securities issued by the Republic of Croatia
- The maximum amount of the portfolio per issuer of 10% of the regulatory capital

With regard to the set limits on concentration risk, the limit for investing in bonds was not exceeded at the end of 2020.

**47. Operational risk**

The Bank is exposed to operational risk in all its business activities and therefore seeks to manage operational risk in accordance with the prescribed principles and policies, as defined for the purpose of avoiding or mitigating operational risk.

Operational risk is managed through its identification, assessment, control and monitoring and the appropriate organisational chart and internal acts are set for that purpose. The Bank's policy for managing operational risk, beside the definition of the risk and its categories, determines also the classification of operational risk events in a way that it takes the classification from the current subordinate regulations. Furthermore, as part of the assessment and measurement of risk, the Bank covers the events that occurred and resulted in operating losses as well as the events which have occurred but for which the operating loss was avoided. Area of operational risk management is also regulated by special internal documents. For that purpose specific functions for operating segments related to the risk of outsourcing, compliance, anti-money laundering and terrorist financing, risk information systems and business continuity have been set.

For the purposes of identification and assessment of operational risk exposure, the Bank uses both qualitative and quantitative methods.

The Bank's actions in case of emergencies are regulated by the Business continuity plan.

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**48. Fair value of financial instruments**

Fair values of financial assets and financial liabilities are determined as follows:

- Fair value of financial assets and financial liabilities with standard terms and conditions traded with in active liquid markets is determined with reference to quoted market prices.
- Fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- Fair value of derivative instruments is calculated using listed prices. Whenever such prices are not available, the analysis uses discounted cash flows by applying the current yield curve for the period of non-derivative instruments.
- This note provides information on methods used by the Bank to determine the fair value of various financial assets and financial liabilities.

The table below provides information on how to determine their fair value, more precisely, valuation methods and used input data:

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation method and main input data
	31.12.2020.	31.12.2019.		
1) Listed bonds (note 23)		<i>Listed debt securities – government bonds – HRK 173,510 thousand (book value = HRK 155,655 thousand)</i>	Level 1	Market price model – the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
2) Listed bonds (note 23)		<i>Listed debt securities – bonds of other companies (Zgb.holding) – HRK 18,238 thousand (book value = HRK 16,949 thousand)</i>	Level 1	Market price model – the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
3) Listed shares in investment funds (note 23)	<i>Listed securities – shares in investment funds – HRK 11,270 thousand (book value = HRK 11,305 thousand)</i>	<i>Listed securities – shares in investment funds – HRK 35,841. thousand (book value = HRK 36,164 thousand.)</i>	Level 1	Market price model – published share price on the day of valuation.
4) Unlisted bonds (note 23)	<i>Other bonds of Fortenova Group - HRK 64 thousand</i>	<i>Other bonds of Fortenova Group – HRK 235 thousand</i>	Level 3	Book value at cost of acquisition

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**48. Fair value of financial instruments - continued**

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation method and main input data
	31.12.2020.	31.12.2019.		
5) Shares in joint-stock companies (note 23)	<i>Listed securities .0.293 % of shares of Varteks dd –HRK 96 thousand (book value = HRK 120 thousand)</i>	<i>Listed securities .0.293 % of shares of Varteks dd – HRK 215 thousand (book value = HRK 120 thousand)</i>	Level 1	Fair value estimation model - market price model
6) Shares in joint-stock companies (note 23)	<i>Listed shares of Vis d.d.- HRK 0,00 ( 1.64% of share capital)- nominal value HRK 741 thousand</i>	<i>Listed shares of Vis d.d.- HRK 0,00 ( 1.64% of share capital)- nominal value HRK 741 thousand</i>	Level 3	Market price model – long time no trading
7) Shares in joint-stock companies (note 23)	<i>Certificates of ownership in Fortenova Group (0.0037% of ownership) HRK 16 thousand</i>	<i>Certificates of ownership in Fortenova Group (0.0037% of ownership) HRK 59 thousand</i>	Level 4	Book value at cost of acquisition
8) Shares in limited liability companies (note 21)	<i>Unlisted shares 1.04 % of shares of HROK HRK 141 thousand</i>	<i>Unlisted shares 1.04 % of shares of HROK HRK 141 thousand</i>	Level 3	Book value at cost of acquisition
9) Shares in joint-stock companies (note 21)	<i>Unlisted shares 0.08 % of shares of SKDD d.d. – HRK 8 thousand</i>	<i>Unlisted shares 0.87% of shares of SDA d.d. – HRK 8 thousand</i>	Level 3	Book value at cost of acquisition
10) Shares in joint-stock companies (note 21)	<i>Unlisted shares 4.555% of shares of Tržište novca dd – HRK 1 thousand</i>	<i>Unlisted shares 4.555% of shares of Tržište novca dd – HRK 1 thousand</i>	Level 3	Book value at cost of acquisition

**NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued**

**48. Fair value of financial instruments - continued**

*Fair value measurements recognised in the Statement of financial position /Balance sheet*

The table analyses financial instruments subsequently measured at fair value, classified within three groups according to IFRS 13:

1. level of available indicators – fair value indicators are derived from (uncoordinated) quoted market prices for identical assets or liabilities
2. level of available indicators – fair value indicators are derived from inputs other than quoted prices from level 1 which relate to the asset or liability (their prices) or indirectly (derived from prices) and
3. level of indicators – indicators derived using valuation methods in which the input data are not based on available market data (unobservable inputs).

Levels of fair value recognised in the Statement of financial position / Balance sheet:

	Level 1 HRK ,000	Level 2 HRK ,000	Level 3 HRK ,000	Total HRK ,000
<b>2020</b>				
Financial assets through other comprehensive income	-	-	150	<b>150</b>
Financial assets at fair value obligatory through income statement	11,367	-	80	<b>11,447</b>
Financial assets at fair value through income statement	-	-	-	-
<b>2019</b>				
Financial assets through other comprehensive income	-	-	150	<b>150</b>
Financial assets at fair value obligatory through income statement	36,057	-	293	<b>36,350</b>
Financial assets at fair value through income statement	192,091	-	-	<b>192,091</b>

**49. Auditors' fee**

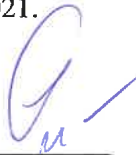
Auditors' fee for the audit of the Bank's annual financial statements in 2020 amounted to HRK 205 thousand plus VAT (2019: HRK 190 thousand plus VAT). Services included: the audit of annual financial statements, audit for CNB and audit of IT system.

**50. Subsequent events**

Following the Balance sheet date there were no events that could have material impact to the annual financial statements of the Bank for 2020 and that should be published accordingly.

**51. Approval of the financial statements**

The financial statements were adopted by the Management Board and approved for publication on 12 February 2021.



Željka Surač  
President of the Management Board



Marino Rade  
Member of the Management Board



**ADDITIONAL REPORTS ACCORDING TO CNB'S DECISION ON STRUCTURE AND  
CONTENT OF ANNUAL FINANCIAL STATEMENTS OF CREDIT INSTITUTIONS**

Annual financial statements of Karlovačka banka d.d. as prescribed by the Croatian National Bank by the Decision on structure and content of annual financial statements of credit institutions (Official Gazzette no. 42/2018 and amendments in Official Gazzette no. 122/2020) are shown below:

- Income statement for 2020
- Statement of other comprehensive income for 2020
- Balance Sheet as at 31 December 2020
- Cash flow statement for 2020
- Statement of changes in equity for 2020

The financial information presented in the following financial statements (hereinafter referred to as the "CNB Report") were derived from financial statements shown on pages 25-28 (hereinafter referred to as the "Basic financial statements").

Accounting policies have been applied in preparation of these financial statements as well as in the preparation of basic financial statements in terms of valuation of individual positions of the balance sheet, income statement, cash flow statement and changes in equity but the grouping and presentation of individual items has been carried out in accordance with the said Decision on structure and content of annual financial statements of credit institutions.

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**INCOME STATEMENT FOR 2020**

<b>Description</b>	<b>2020. HRK ,000</b>	<b>2019. HRK ,000</b>
Interest income	56,247	62,882
(Interest expenses)	(5,696)	(8,065)
Income from fees and commissions	22,922	22,834
(Fees and commissions expenses)	(6,608)	(6,932)
Profit/(loss) after recognition of financial assets and liabilities not valued at fair value through income statement	(4)	-
Net Profit/(loss) from financial assets and liabilities held for trading	10,441	7,406
Net Profit/(loss) from financial assets not traded but valued at fair value through income statement	(10)	(781)
Net Profit/(loss) from financial assets and liabilities at fair value through income statement	(728)	5,873
Profit/(loss) from accrued foreign exchange differences	(261)	(28)
Other operating income	438	924
(Other operating expenses)	(134)	(5,944)
<b>Total operating income (net)</b>	<b><u>76,607</u></b>	<b><u>78,169</u></b>
(Administrative expenses)	(41,160)	(39,417)
(Contributions in cash to resolution committees and deposit insurance systems)	(4,791)	
(Depreciation)	(4,354)	(4,523)
(Provisions or (-) termination of provisions)	4,710	(666)
(Impairment or (-) termination of impairment of financial assets not valued at fair value through income statement)	(10,385)	(3,855)
(Impairment or (-) termination of impairment of non-financial assets)	(688)	(1,937)
<b>Profit/(loss) before tax from continuing operations</b>	<b>19,939</b>	<b>27,771</b>
<b>Tax expense from continuing operations</b>	<b>(369)</b>	<b>(1,726)</b>
<b>Profit/(loss) after tax from continuing operations</b>	<b><u>19,570</u></b>	<b><u>26,045</u></b>
Profit or (-) loss before tax from operations which will not continue	9,959	(5,152)
(Tax expense) related to operations which will not continue	(27)	-
<b>Profit/(loss) after tax from operations which will not continue</b>	<b><u>9,932</u></b>	<b><u>(5,152)</u></b>
<b>Profit/(loss) for the year</b>	<b><u>29,502</u></b>	<b><u>20,893</u></b>

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**STATEMENT OF OTHER COMPREHENSIVE INCOME**

Description	2020.	2019.
	HRK ,000	HRK ,000
Profit or (-) loss for the year	29,502	20,893
Other comprehensive income	-	-
Items not to be reclassified as profit or loss	-	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or (-) losses on sponsored pension plans	-	-
Fixed assets and disposal groups intended for sale	-	-
Share of other recognised income and expense from entities which is accounted for using the equity method	-	-
Charges in fair value of equity instruments valued at fair value through other comprehensive income	-	-
Gains/(losses) from accounting protection of equity instruments valued at fair value through other comprehensive income	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income (protected item)	-	-
Changes in fair value of financial liabilities valued at fair value through income statement that are attributed to changes in credit risk	-	-
Income tax referring to items that will not be reclassified	-	-
Items that may be reclassified as profit or loss	-	-
Protection of net investments in foreign operations (effective portion)	-	-
Foreign currency exchange	-	-
Cash flow protection (effective portion)	-	-
Hedging instruments (elements not specified)	-	-
Debt instruments at fair value through other comprehensive income	-	-
Fixed assets and disposal groups intended for sale	-	-
Portion of other recognised income and expense from investments into subsidiaries, joint ventures and associates	-	-
Income tax referring to items that may be reclassified as profit/(loss)	-	-
Total comprehensive income for the year	29,502	20,893
Attributable to minority interest	-	-
Attributable to owners of the parent company	29,502	20,893

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**BALANCE SHEET AS AT 31 DECEMBER 2020**

<b>Description</b>	<b>31.12.2020.</b>	<b>31.12.2019.</b>
	<b>HRK ,000</b>	<b>HRK ,000</b>
<b>ASSETS</b>		
Cash, receivables from central banks and other demand deposits	663,658	446,795
Cash in hand	49,362	48,313
Cash receivables from central banks	462,478	262,229
Other demand deposits	151,818	136,254
Financial assets held for trading	-	-
Financial assets not traded but valued at fair value through income statement	11,447	36,350
Equity instruments	11,383	36,115
Debt securities	64	235
Financial assets at fair value through income statement	-	192,091
Financial assets at fair value through other comprehensive income	150	150
Financial assets at depreciated cost	1,917,843	1,633,597
Debt securities	561,537	303,584
Loans and advances	1,356,306	1,330,013
Investments in subsidiaries	-	-
Tangible assets	24,999	27,985
Intangible assets	105	196
Tax assets	1,808	1,027
Other assets	502	608
Fixed assets and disposal groups intended for sale	25,739	66,080
<b>Total assets</b>	<b>2,646,251</b>	<b>2,404,879</b>
<b>LIABILITIES</b>		
Financial liabilities held for trading	-	-
Financial liabilities at fair value through income statement	-	-
Financial liabilities at depreciation cost	2,423,632	2,205,059
Deposits	2,423,068	2,203,862
Other financial liabilities	564	1,197
Provisions	3,730	8,425
Tax liabilities	148	1,744
Other liabilities	12,185	12,597
<b>Total liabilities</b>	<b>2,439,695</b>	<b>2,227,825</b>
<b>CAPITAL</b>		
Share capital	176,678	176,678
Retained profit (loss)	-	(20,517)
Revaluation reserves	-	-
Other reserves	376	-
Profit (loss) for the year	29,502	20,893
Statutory and other capital reserves	-	-
<b>Total capital</b>	<b>206,556</b>	<b>177,054</b>
<b>Total liabilities and capital</b>	<b>2,646,251</b>	<b>2,404,879</b>

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**CASH FLOW STATEMENT FOR 2020**

Description	On the reporting date of the current period HRK ,000	Same period last year HRK ,000
1	3	4
<b>Business activities according to the direct method</b>		
Collected interest and similar receipts	-	-
Collected fees and commissions	-	-
(Paid interest and similar expenditure)	-	-
(Paid fees and commissions)	-	-
(Paid operating expenses)	-	-
Net profit / loss from financial instruments at fair value through income statement	-	-
Other receipts	-	-
(Other expenditure)	-	-
<b>Business activities according to the indirect method</b>		
Profit/(loss) before tax	29,898	22,619
Adjustments:		
Impairments and provisions	6,361	6,458
Depreciation	4,354	4,523
Net unrealised (profit)/loss from financial assets and liabilities at fair value through income statement	(718)	5,092
(Profit)/loss from sale of tangible assets	-	1,116
Other non-cash items	-	-
Deposits with CNB	21,921	(5,835)
Deposits with and loans to financial institutions	8,597	3,379
Loans and advances to other customers	(92,088)	(20,334)
Securities and other financial instruments at fair value through other comprehensive income	-	-
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments that are not actively traded with but are valued at fair value through income statement	192,798	22,822
Securities and other financial instruments required at fair value through income statement	23,768	(41,705)
Securities and other financial instruments at depreciated cost	(262,564)	(83,895)
Other assets from operating activities	(3,657)	2,741
Deposits from financial institutions	(172)	130

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**CASH FLOW STATEMENT FOR 2020 - continued**

Description	On the reporting date of the current period HRK ,000	Same period last year HRK ,000
1	3	4
Transaction accounts of other customers	180,992	202,562
Savings deposits of other customers	139,318	8,497
Term deposits of other customers	(96,209)	(76,133)
Derivative financial liabilities and other liabilities held for trading	-	-
Other liabilities from operating activities	(2,982)	(5,898)
Interest collected from operating activities [indirect method]	12,855	14,854
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	(3,190)	(6,305)
(Income tax paid)	(396)	(1,726)
<b>Net cash flow from operating activities</b>	<b>158,886</b>	<b>52,962</b>
<b>Investment activities</b>		
Receipts from sales / payments for the purchase of tangible and intangible assets	38,389	575
Receipts from sales / payments for the purchase of investments in subsidiaries, associates and joint ventures	-	-
Receipts from collections / payments for the purchase of securities and other financial instruments held to maturity	-	-
Dividends received from investment activities	-	-
Other receipts / payments from investment activities	379	856
<b>Net cash flow from investment activities</b>	<b>38,768</b>	<b>1,431</b>
<b>Financial activities</b>		
Net increase/(decrease) in received loans	(1,653)	(2,070)
Net increase /( decrease) in issued debt securities	-	-
Net increase /( decrease) in supplementary capital instruments	37	(2)
Increase in share capital	-	-
(Dividend paid)	-	-
Other receipts/(payments) from financial activities	-	-

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**CASH FLOW STATEMENT FOR 2020 - continued**

Description	On the reporting date of the current period HRK ,000	Same period last year HRK ,000
1	3	4
Net cash flows from financial activities	(1,616)	(2,072)
Net increase/(decrease) in cash and cash equivalents	196,038	52,321
Cash and cash equivalents at the beginning of the year	482,827	430,506
Effects of changes in foreign exchange rates on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	678,865	482,827

# Appendix A - Other legal and regulatory requirements

## ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued

STATEMENT OF CHANGES IN EQUITY IN 2020															
Description		Attributable to equity holders of the parent										Minority share		Total	
No.		Capital	Share premium	Issued equity instruments other than equity	Other equity instruments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or (–) loss attributable to equity holders of the parent	Dividends during the year	Accumulated other comprehensive income	Other items	
	1	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	Opening balance before adjustment]	176,678	-	-	-	-	(20,517)	-	-	-	20,893	-	-	-	177,054
2.	Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	Opening balance [current year] (1. + 2. + 3.)	176,678	-	-	-	-	(20,517)	-	-	-	20,893	-	-	-	177,054
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8.	Execution or expiration of other issued equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix A - Other legal and regulatory requirements

ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued

STATEMENT OF CHANGES IN EQUITY IN 2020

	Description	Attributable to equity holders of the parent											Minority share		Total
No.		Capital	Share premium	Issued equity instruments other than equity	Other equity instruments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or ( – ) loss attributable to equity holders of the parent	Dividends during the year	Accumulated other comprehensive income	Other items	
	1	3	4	5	6	7	8	9	10	11	12	13	14	15	16
9.	Conversion of debt to equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Reduction of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.	Purchase / sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity instruments to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liabilities to equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfers between components of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-

# Appendix A - Other legal and regulatory requirements

## ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued

### STATEMENT OF CHANGES IN EQUITY IN 2020

Description		Attributable to equity holders of the parent											Minority share		Total
No.		Capital	Share premium	Issued equity instruments other than equity	Other equity instruments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or ( – ) loss attributable to equity holders of the parent	Dividends during the year	Accumulated other comprehensive income	Other items	
	1	3	4	5	6	7	8	9	10	11	12	13	14	15	16
17.	Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Other increase or ( – ) decrease in equity instruments	-	-	-	-	-	20,517	-	376	-	(20,893)	-	-	-	-
19.	Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	29,502	-	-	-	29,502
20.	Increase or ( – ) decrease in equity instruments resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21.	Closing balance (current year)	176,678	-	-	-	-	-	-	376	-	29,502	-	-	-	206,556

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

Reconciliation of annual financial statements prepared in accordance with reporting framework and annual financial statements prescribed by the CNB's Decision on structure and content of annual financial statements of credit institutions:

**A) RECONCILIATION OF THE INCOME STATEMENT FOR 2020**

Description	CNB Decision 2020	Basic financial statements 2020	Difference	Explanatory Note
	HRK ,000	HRK ,000	HRK ,000	
Interest income	56,247	56,264	(17)	1
(Interest expenses)	(5,696)	(5,696)		
Income from fees and commissions	22,922	22,922		
(Expenses from fees and commissions)	(6,608)	(6,608)		
Profit/(loss) on termination of recognition of financial assets and liabilities not valued at fair value through income statement	(4)		(4)	2
Profit/(loss) on financial assets and liabilities held for trading, net	10,441		10,441	2
Profit/(loss) on financial assets which are not traded with and which are valued at fair value through income statement, net	(10)		(10)	2
Profit/(loss) on financial assets and liabilities at fair value through income statement, net	(728)		(728)	2
Profit from financial operations		9,699	(9,699)	2
Profit/(loss) from accrued exchange rate differences	(261)	(279)	18	1
Other operating income	438	24,554	(24,116)	3
(Other operating expenses)	(134)		(134)	3
<b>Total operating income (net)</b>	<b>76,607</b>			
General administrative and other operating expenses		(64,597)	64,597	3
(Impairment and provision costs)		(6,361)	6,361	4
(Administrative expenses)	(41,160)		(41,160)	3
(Contributions in cash to resolution committees and deposit insurance systems)	(4,791)		(4,791)	3
(Depreciation)	(4,354)		(4,354)	3
(Provisions or (-) termination of provisions)	4,710		4,710	4
(Impairment or (-) termination of impairment of financial assets not valued at fair value through income statement)	(10,385)		(10,385)	4
(Impairment or (-) termination of impairment of non-financial assets)	(688)		(688)	4
<b>Profit/(loss) before tax from continuing operations</b>	<b>19,939</b>			
<b>Tax expense from continuing operations</b>	<b>(369)</b>	<b>(369)</b>		
<b>Profit/(loss) after tax from continuing operations</b>	<b>19,570</b>			
Profit or (-) loss before tax from operations that will not continue	9,959		9,959	3
(Tax expenses) related to operations that will not continue	(27)	(27)		
<b>Profit/(loss) after tax from operations that will not continue</b>	<b>9,932</b>			
<b>Profit/(loss) for the year</b>	<b>29,502</b>	<b>29,502</b>	<b>-</b>	

**A) RECONCILIATION OF THE INCOME STATEMENT FOR 2020 – EXPLANATORY NOTES**

1. According to the CNB'S Decision, *Interest income* item does not include the net result of foreign exchange interest gains which amounted to HRK (18) thousand in 2020. This effect is reported in the Basic financial statements under *Profit/(loss) from accrued foreign exchange differences*. Foreign exchange interest is reported in the *Interest income*.
2. In the report in accordance with the CNB'S Decision, Profit/(loss) from financial assets in the amount of HRK 9,699 thousand is presented in several items, depending on the portfolio while in the Basic financial statements the net financial operations effect is presented in total in one item – *Profit from financial operations* and is detailed in the accompanying notes (Note no. 8).
3. *General administrative expenses*, presented in Basic financial statements in the amount of HRK 64,597 thousand (Note no. 11, 12, 13) are reported in the report in accordance with the CNB's Decision in separate items *Administrative expenses* in the amount of HRK 41,160 thousand, *Contributions in cash to insurance systems* in the amount of HRK 4,791 thousand, *Depreciation* in the amount of HRK 4,354 thousand, *Other expenses* in the amount of HRK 134 thousand and *Net income from operations that will not continue* in the amount of HRK 9,959 thousand. Net income from operations that will not continue in the amount of HRK 9,959 thousand includes expenses in the amount of HRK 14,156 thousand and income in the amount of HRK 24,115 thousand.
4. In the report in accordance with the CNB'S Decision, *Impairment, provisions and termination of provisions* are presented in three separate items in the total amount of HRK 6,363 thousand. In the Basic financial statements *Impairment and provision costs* amount to HRK 6,361 thousand. The difference of HRK 2 thousand relates to the net effect of the provision for employees which are included within *Administrative expenses* in the report in accordance with the CNB's Decision and individual write-offs which are presented in the Basic financial reports under item Other operating expenses (HRK 16 thousand).

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued**

**B) RECONCILIATION OF THE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR 2020**

	CNB Decision 2020.	Basic financial statements 2020	Difference
Description	HRK ,000	HRK ,000	
Profit or (-) loss for the year	29,502	29,502	
Other comprehensive income	-	-	-
Items not to be reclassified into profit or loss	-	-	-
Tangible assets	-	-	-
Intangible assets	-	-	-
Actuarial gain or (-) losses on sponsored pension plans	-	-	-
Fixed assets and disposal groups intended for sale	-	-	-
Share of other recognised income and expense from entities which is accounted for using the equity method	-	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income	-	-	-
Gains/(losses) from accounting protection of equity instruments valued at fair value through other comprehensive income	-	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income (protected item)	-	-	-
Changes in fair value of financial liabilities valued at fair value through profit/(loss) attributed to changes in credit risk	-	-	-
Income tax related to items that will not be reclassified	-	-	-
Items that may be reclassified into profit or loss	-	-	-
Protection of net investments in foreign operations (effective portion)	-	-	-
Conversion of foreign currencies	-	-	-
Protection of cash flows (effective portion)	-	-	-
Hedging instruments (elements which are not specified)	-	-	-
Debt instruments at fair value through other comprehensive income	-	-	-
Fixed assets and disposal groups intended for sale	-	-	-
Portion of other recognised income and expense from investments into subsidiaries, joint ventures and associates	-	-	-
Income tax relating to items that may be reclassified to profit /(loss)	-	-	-
Total comprehensive income for the year	29,502	29,502	-

In the Statement of comprehensive income, differences in amounts by item were not identified.

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK – continued****C) RECONCILIATION OF STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2020**

Item	CNB Decision HRK ,000	Basic financial statements HRK ,000	Difference HRK ,000	Explanat ory Note
<b>ASSETS</b>				
Cash, receivables from central banks and other demand deposits	663,658			
<i>Cash</i>		663,658	(663,658)	1
Cash in hand	49,362		49,362	1
Cash receivables from central banks	462,478		462,478	1
Other demand deposits	151,818		151,818	1
Receivables from CNB		141,385	(141,385)	2
Placements with banks		19,314	(19,314)	2
Financial assets held for trading	-	-		
Financial assets that are not traded with and that are valued at fair value through income statement	11,447	11,447	-	
Equity instruments	11,383	11,383	-	
Debt securities	64	64	-	
Financial assets at fair value through income statement	-	-	-	
Financial assets at fair value through other comprehensive income	150	150	-	
Equity instruments	150	150	-	
Financial assets at depreciated cost	1,917,843			
Debt securities	561,537	561,537	-	
Loans and advances	1,356,306	1,186,602	169,704	2 and 3
Investments in subsidiaries, joint ventures and associates	-	-		
Tangible assets	24,999			3
<i>Property, plant and equipment</i>		24,999	-	3
Intangible assets	105	105	-	
Tax assets	1,808	-	1,808	3
Other assets	502	11,315	(10,813)	2 and 3
Fixed assets and disposal groups classified for sale	25,739	25,739	-	3
<b>Total assets</b>	<b>2,646,251</b>	<b>2,646,251</b>	<b>-</b>	
<b>LIABILITIES</b>				
<b>Financial liabilities held for trading</b>	-	-		
<b>Financial liabilities at fair value through income statement</b>	-	-		
<b>Financial liabilities at drepreciated cost</b>				
Liabilities to banks		1	(1)	
Deposits	2,423,068	2,367,157	55,911	4
Loans received		2,072	(2,072)	4
Hybrid instruments		53,837	(53,837)	4
Other financial liabilities	564	-	564	4
Provisions	3,730	3,730	-	
Tax liabilities	148	-	148	4
Othe liabilities	12,185	12,898	(713)	4
<b>Total liabilities</b>	<b>2,439,695</b>	<b>2,439,695</b>	<b>0</b>	

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK – continued**
**C) RECONCILIATION OF STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2020 - continued**

	CNB Decision	Basic financial statements	Difference	Explanat ory Note No.
Item	HRK ,000	HRK ,000	HRK ,000	
<b>CAPITAL</b>				
Share capital	176,678	176,678	-	
Retained profit (loss)	-	-		
Revaluation reserves	-	-		
Other reserves	376	376	-	
Profit (loss) for the year	29,502	29,502	-	
Statutory and other capital reserves	-	-		
<b>Total capital</b>	<b>206,556</b>	<b>206,556</b>	<b>-</b>	
<b>Total liabilities and capital</b>	<b>2,646,251</b>	<b>2,646,251</b>	<b>-</b>	

**C) RECONCILIATION OF STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2020 – EXPLANATORY NOTES**
**ASSETS**

1. In the Basic financial statements, items reported under *Cash* are presented as *Cash in hand*, *Cash receivables from central banks* and *Other demand deposits* in the report according to the CNB's Decision.
2. In the Basic financial statements, *Receivables from CNB* and *Placements with banks* are disclosed separately, the amounts of which, in accordance with the CNB's Decision are among others included in *Financial assets at depreciated cost – Loans and advances*. This item, according to the CNB's Decision also includes the majority of the assets which are included in *Other assets* in the Basic financial statements.
3. According to the CNB's Decision *Tangible assets* comprise the tangible assets that the Bank uses in its operations while the item *Fixed assets and disposal groups classified for sale states foreclosed assets in exchange for uncollected receivables and assets no longer used for regular business*.

In the Basic financial statements, tangible assets that the Bank uses in its operations or holds as investment in real estate are reported under *Property, plant and equipment* while foreclosed assets in exchange for uncollected receivables and assets held for sale are reported under *Fixed assets and assets held for sale*.

Item Tax assets in the Basic financial statements is stated under *Other assets*.

**LIABILITIES AND CAPITAL**

4. Item *Deposits* in the report according to CNB's Decision includes all types of deposits and loans received as well as hybrid instruments, whereas in the Basic financial statements these items are presented separately. *Loans received* and *Hybrid instruments* are presented separately in the Basic financial statements. Other differences refer to the different reclassification of all other liabilities.

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK – continued**
**D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2020**

	<b>CNB Decision</b>	<b>Basic financial statements</b>	<b>Difference</b>
<b>Item</b>	<b>HRK ,000</b>	<b>HRK ,000</b>	<b>HRK ,000</b>
<b>Business activities according to the direct method</b>			
Collected interest and similar receipts	-	-	
Collected fees and commissions	-	-	
(Paid interest and similar expenditure)	-	-	
(Paid fees and commissions)	-	-	
(Paid operating expenses)	-	-	
Net gains / losses from financial instruments at fair value through income statement	-	-	
Other receipts	-	-	
(Other expenditure)	-	-	
<b>Business activities according to the indirect method</b>			
Profit/(loss) before tax	29,898	29,898	-
Adjustments:			
Impairments and provisions	6,361	6,361	-
Depreciation	4,354	4,354	-
Net unrealised (profit)/loss from financial assets and liabilities at fair value through income statement	(718)	-	(718)
(Profit)/loss from the sale of tangible assets	-	-	-
Other non-cash items	-	-	-
Deposits with CNB	21,921	21,921	-
Deposits with and loans to financial institutions	8,597	8,597	-
Loans and advances to other customers	(92,088)	(84,007)	(8,081)
Securities and other financial instruments at fair value through other comprehensive income	-	-	-
Securities and other financial instruments held for trading	-	-	-
Securities and other financial instruments which are not actively traded with but are valued at fair value through income statement	192,798	216,994	(24,196)
Securities and other financial instruments at fair value through income statement	23,768	-	23,768
Securities and other financial instruments at depreciated cost	(262,564)	(259,016)	(3,548)
Other assets from operating activities	(3,657)	(3,657)	-
Deposits from financial institutions	(172)	(172)	-
Transaction accounts of other customers	180,992	320,188	(139,196)
Savings deposits of other customers	139,318	-	139,318
Term deposits of other customers	(96,209)	(99,197)	2,988
Derivative financial liabilities and other liabilities that are traded with	-	-	-
Other liabilities from operating activities	(2,982)	(2,982)	-
Collected interest from operating activities [indirect method]	12,855	-	12,855

**ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK – continued****D)RECONCILIATION OF THE CASH FLOW STATEMENT - continued**

	<b>CNB Decision</b>	<b>Basic financial statements</b>	<b>Difference</b>
<b>Item</b>	<b>HRK ,000</b>	<b>HRK ,000</b>	<b>HRK ,000</b>
Dividends received from operating activities [indirect method]	-	-	-
Paid interest from operating activities [indirect method]	(3,190)	-	(3,190)
(Paid income tax)	(396)	(396)	-
<b>Net cash flows from operating activities</b>	<b>158,886</b>	<b>158,886</b>	<b>-</b>
Receipts from sales / payments for the purchase of tangible and intangible asseets	38,389	38,389	-
Receipts from sales / payments for the purchase of investments in subsidiaries, associates and joint ventures	-	-	-
Receipts from collections / payments for the purchase of securities and other financial instruments held to maturity	-	-	-
Dividends received from investment activities	-	-	-
Other receipts / payments from investment activities	379	379	-
<b>Net cash flows from investment activities</b>	<b>38,768</b>	<b>38,768</b>	<b>-</b>
Net increase/(decrease) in received loans from financial activities	(1,653)	(1,653)	-
Net increase/(decrease) in issued debt securities	-	-	-
Net increase/(decrease) in supplementary capital instruments	37	37	-
Increase in share capital	-	-	-
(Dividend paid)	-	-	-
Other receipts/(payments) from financial activities	-	-	-
<b>Net cash flows from financial activities</b>	<b>(1,616)</b>	<b>(1,616)</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>196,038</b>	<b>196,038</b>	<b>-</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>482,827</b>	<b>482,827</b>	<b>-</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>678,865</b>	<b>678,865</b>	<b>-</b>

**D)RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2020 – EXPLANATORY NOTES**

Deviations from the cash flow position in the basic financial statements in relation to the report prescribed by the CNB's Decision derive from:

Differences in presentation of certain balance sheet positions as explained in the overview of Balance sheet differences in the basic financial statements in relation to the standard prescribed by the CNB's Decision.

However, when considering the total of the three activity groups, these cash flows do not differ.

**E) RECONCILIATION OF THE STATEMENT OF CHANGES IN EQUITY FOR 2020**

In the statement of changes in equity, differences were not identified.