



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

**Annual Financial Statements
and
Independent Auditor's Report
for 2021**

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**REPORT OF THE MANAGEMENT BOARD ACCOMPANYING AUDITED
FINANCIAL STATEMENTS FOR THE PERIOD 1 January – 31 December 2021**

Business environment

Although the business environment in 2021 was marked by the continuation of the COVID 19 pandemic with accompanying measures to limit business, the Croatian economy has achieved visible recovery and progress in such conditions compared to the previous year in which the pandemic broke out. This is confirmed by the prepared projections of the values of key macroeconomic indicators for 2021 that were published by the CNB in December;

Change rates

	2021	2022
GDP	10.8	4.1
Private consumption	9.4	3.7
Government consumption	1.0	2.8
Fixed capital investments	7.9	7.8
Exports of goods and services	31.1	8.1
Imports of goods and services	19.0	7.8
LABOR MARKET		
Number of employed persons (rate)	2.2	1.5
PRICES		
Consumer price indeks (aver.r.)	2.4	2.4
EXTERNAL SECTOR		
Current Payments Balance Sheet (% GDP)	2.0	1.4
Gross external debt (% GDP)	74,6	68.1
MONETARY TRENDS		
Placements with private sector (trans.)	3.4	3.4
Placements with private sector (nom.)	2.8	3.3

- **Source: CNB Macroeconomic trends and forecasts no. 11**

In 2021, gross domestic product (GDP) could grow by 10.8 percent in real terms and by 4.1 percent in 2022. Thus, the CNB raised the estimate of the growth of the Croatian economy to higher, given that earlier forecasts predicted real GDP growth of 8.5 percent in 2021. GDP growth forecasts for 2022 were retained at 4.1 percent. According to the summary of CNB's Macroeconomic trends and forecasts no. 11, the favourable epidemiological situation during the third quarter of 2021 and significantly less restrictive measures to combat the pandemic compared to competitive countries, have contributed to exceptionally good economic performance.

Current developments have been positively surprising, especially when it comes to exports of services and personal consumption. Thus, real economic growth intensified on a quarterly basis and GDP increased by 15.8 percent compared to the third quarter of 2020 while the data for October suggests that growth could continue in the fourth quarter, although at a slightly lower intensity. Therefore, after a strong contraction in 2020, the real GDP is expected to grow by a high 10.8 percent in 2021, thus exceeding the pre-crisis level, with foreign demand being emphasised as the main driver of growth. It is expected that in the fourth quarter of 2021 the growth rate will be 11 percent, primarily due to better export performance, not only due to better results in tourism but also due to higher growth rates of exports of goods.

When it comes to the expected growth rate of the Croatian economy in 2022 of 4.1 percent, it is based on the continuation of strong foreign demand as well as on personal consumption which is expected to grow under the influence of GDP growth but also the situation on the labor market. Namely, employment is higher in the current period than in the same period in 2019 and this difference has been noticed to be increasing towards the end of 2021. This positive trend is expected to continue next year with a simultaneous drop in the unemployment rate. This could create further pressure on wage growth and thus on personal consumption. According to CNB's projections, personal consumption should grow by 9.4 percent in 2021 and by 3.7 percent in 2022 and exports of goods and services should grow by 31.1 percent in 2021 and by 8.1 percent in 2022. On the other hand, imports should grow at slower rates, by 19 percent in 2021 and by 7.8 percent in 2022.

Among other indicators, there are investments in capital which should increase by 7.9 percent in 2021 and by 7.8 percent in 2022. But, negative risks for economic growth are more expressed in 2022, such as deteriorating epidemiological situation, disruptions in global supply chains, lower investment due to uncertainty and rising inflation. On the other hand, the main positive risk, stronger than expected is the withdrawal of funds from EU funds.

Inflation could accelerate to 2.4 percent in 2021 and that average level is expected to maintain in 2022. Namely, earlier CNB forecasts estimated average inflation at 2.3 percent in 2021 and 2.1 percent in 2022. However, there are significant negative risks to the projection of the inflation rate in 2022 and they are primarily related to the movement of energy prices. If, in April 2022, when electricity and gas prices change, for example, they increase by ten percent, this would affect the change in the inflation projection for the remaining three quarters in such a way that it would increase from 2.4 to 3 percent. In the same document, the CNB points out that the inflation rate is the only somewhat uncertain criterion in the process of Croatia's entry into the eurozone, for which the target date is 1 January 2023. Namely, one of the criteria of nominal convergence, the so-called Maastricht criteria, is price stability according to which the inflation rate must not exceed 1.5 percentage points of the average inflation rate for the three EU countries with the lowest inflation in the year preceding the review of the situation in the candidate country for European Monetary Union (EMU).

It is expected that the inflation rate in Croatia will be at the level of the inflation rate in the euro area and if this is the case in the future, then the Republic of Croatia would have to meet this criterion. When it comes to activities on the way to the eurozone and if Croatia gets the 'green' light for that in the middle of 2022, the introduction of double pricing in shops and cafes can be expected in summer.

According to the same projection of the CNB, the annual growth of corporate lending could slow down to 0.2 percent by the end of 2021, while retail loans could increase by 4.9 percent at year level. In 2022, the growth of retail loans is expected to slow down with simultaneous strengthening of corporate lending which could increase total loans, excluding the state, by 3.4 percent or at the same pace as in 2021. At the same time, interest rates on loans to individuals and corporates are still at an all-time low.

Financial result of the Bank

In the conditions of the described business environment, we evaluate business in 2021 as successful. According to the audited financial report, the Bank generated a profit after tax in the amount of HRK 25,017 thousand in 2021, which resulted in a return on assets (ROA) of 0.9% and a return on equity (ROE) of 11.4%.

Compared to the previous year, the realised profit after tax was lower by 15% or by HRK 4.5 million nominally. The realised decrease in profit was influenced by the realised loss in the amount of HRK 5.1 million from discontinued operations, this loss being a consequence of the Bank losing two long-standing lawsuits that were conducted against the Bank. In this business segment in 2020 the Bank showed high profit in the amount of HRK 10.0 million, which at that time referred mainly to extraordinary profit realised through the sale of the materially most significant foreclosed real estate.

The realised profit from continuing operations amounted to HRK 32.3 million in 2021 which was an increase by 62% or HRK 12.4 million when compared to previous year. This significant increase in operating profit was mainly due to:

- Achieved reduction of total operating expenses by approximately HRK 4.9 million or by 10%, which was primarily due to the termination of the obligation to calculate and pay the premium for deposit insurance throughout the year
- Realised increase in revenues from the purchase and sale of foreign currency by approximately HRK 4.4 million or by 42%
- Realised increase in net income from fees and commissions by approximately HRK 2.2 million or 13%
- Achieved reduction in the cost of provisions for placements on all bases by approximately HRK 0.5 million or 8%

In 2021 the Bank further improved significantly the degree of business efficiency. Good credit risk management, on the other hand, made an additional contribution to the amount of positive business results achieved through the maintained or somewhat lower level of costs of value adjustments of placements compared to last year.

The realised profit represents a solid potential for the continuation of the Bank's increased lending activity in 2022, that is, a sufficient potential to support the planned growth of loans to existing and new clients, primarily those from the retail and small and medium enterprises segment.

The Bank's lending activity in 2021 resulted in a decrease in total loans to other customers by approximately 1%. The decline is a consequence of the decline in loans to legal entities by 13% and the decline in loans of the Republic of Croatia by 1%, with a simultaneous increase in loans to individuals at a rate of 3%. The relatively high decline in loans to legal entities is a consequence of the materially high maturity and collection of the part of the portfolio intended for project financing during the third quarter.

By implementing the measures set out in the Strategy for the reduction of non-revenue loans, the Bank reduced this portfolio by 14% in 2021.

In the conditions of continuously present high liquidity of the Bank, which has been characteristic of the entire banking industry for a long time, the Bank maintained and additionally increased (by approximately 20%) its investments in highly liquid debt securities of the Republic of Croatia in 2021, including investments in treasury bills of the Ministry of Finance, which assets are mainly classified in the portfolio valued at depreciation cost. The share of these highly liquid assets ranged from 20-21% of the Bank's total assets during the year.

At the end of 2021 the Bank's assets amounted to HRK 3.101 million. Compared to the reported level at the end of 2020, it recorded a growth at nominal rate of 17.2%. Growth at real rate was 17.3%, that is, it was only slightly higher, given the very slight appreciation of Croatian kuna.

Customer deposits amounted to HRK 2,839,986 thousand at the end of December, which is an increase of 20.0% when compared to the end of 2020. The continuation of the period of low interest rates resulted in continuation in 2021 of the previously observed trend of changing the maturity structure of the deposit base towards reducing term deposits with simultaneously recorded relatively high growth rates of a vista deposits. Term deposits recorded a decline in 2021 at a rate of 5% and a vista deposits increased at a rate of 36%.

Net interest income amounted to HRK 50,540 thousand which is equal to the amount generated in 2020. The maintained level of net interest income, with a further decline in net interest margin, was achieved in the context of a decline in interest income by 4% and a decline in interest expenses at a rate of 40%.

The decline in interest income was due to the continuous reduction of lending interest rates and their adjustment to competitive prices and partly as a result of the continued decline in the reference rate, NRS, which resulted in two additional reductions in interest rates on loans to individuals with a variable interest rate related to that parameter.

The decline in interest expenses is a consequence of lower costs on term deposits and hybrid instruments due to reduced base of these balance sheet items as well as due to reduced price of term deposits due to continuous reduction of deposit interest rates over the past 2 years.

Net income from fees and commissions amounted to HRK 18,476 thousand or 13% higher the amount of 2020. The growth was the result of the growth of income from fees and commissions at a rate of 12% with a simultaneous increase in fees and commissions expenses at a rate of 9%.

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

- Trading income in the amount of HRK 14,860 thousand or 42% higher than achieved in 2020
- Unrealised loss from assets valued at fair value through profit and loss in the amount of HRK 528 thousand, which is mainly based on the realised decline in the prices of the GDP portfolio and shares in funds
- Realised profit from the sale of debt securities from the portfolio of instruments valued at depreciated cost in the amount of HRK 272 thousand

General and administrative expenses, including the costs of insurance premiums and depreciation costs amounted to HRK 45,369 thousand or approximately 10% less than in 2020. The majority of this reduction relates to the aforementioned temporary cancelled cost of deposit insurance premiums.

The Bank's cost/income ratio was 54.4% which was 11 percentage points more favourable than the year before and 7 percentage points more favourable than planned for 2021.

Total costs of value adjustments and provisions for losses on all bases amounted to approximately HRK 5.9 million of 8% less than a year earlier. The majority of this cost in 2021 related to the allocation of provisions for the so-called expected losses on current lending activity.

The basic positions of assets and liabilities are the following:

- **Highly liquid assets** represented by cash, deposits with the CNB and placements with banks amounted to HRK 1.166 million or 42% more than at the end of 2020
- **Highly liquid assets** represented by bonds of the Republic of Croatia and local self-government, shares in monetary funds and treasury bills of the Ministry of Finance allocated to the portfolio valued at fair value through profit or loss and portfolio of depreciated cost amounted to HRK 686 million or 20% more than at the end of 2020, with a share in total assets of approximately 22%
- **Loans and advances** amounted to HRK 1.174 million at the end of 2021 or 1.1% less than at the end of 2020
- **Real estate, plant and equipment** amounted to HRK 22 million or 13% less than at the end of 2020; the share of these assets in total assets was thus reduced in 2021 from 0.9% to 0.7%
- **Foreclosed assets and real estate investments** amounted to HRK 25.7 million at the end of 2021 or about the same as a year earlier
- **Capital of the Bank** amounted to HRK 232 million at the end of 2021 which is 12% more than at the end of 2020 and in that amount made up for 7.5% of the Bank's total resources

In addition to the established level of regulatory capital of HRK 233.5 million, the Bank showed the total capital adequacy ratio of **22.19%** at the end of 2021, which level exceeds to a satisfactory extent the established and set, both legally and internally, minimum rate of this indicator and together with available liquid assets has sufficient potential to support the planned lending activity in 2022.

The achieved capital adequacy ratio thus improved by 1.64 percentage points in relation to 20.55% which was achieved in 2020.

Through the continuous structuring of the offer under competitive terms, the Bank maintained the level of the total loan portfolio in the past year, that is, recorded a decrease of less material importance (by 1%). Intensified lending activity in the Individuals segment was achieved, within which loans to individuals and craftsmen increased by 3%. Housing loans increased at a rate of 22%, while non-purpose cash loans decreased at a rate of 4.5%. Cooperation with local self-government units through special credit lines continued as well as cooperation with the Ministry related to subsidised housing loans to individuals, which cooperation has been going on since 2017, with the planned continuation in 2022.

There was a further increase in transaction accounts of individuals and corporates as well as mobile and Internet banking users, both in Individuals segment and Corporate segment, with the expected consequential effect of further gradual migration of transactions from branches. In order to ensure greater availability of products and services and to keep up with 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 2021. 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 as well as an acceptable management system for each of them. With a continuously high level of liquidity, during 2021 the Bank saw additional positive developments in the area of credit risk exposure as 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 achieved within credit risk exposure.

The description and presentation of the Bank's exposure to these risks are detailed in the Notes to the financial statements for 2021.

Own shares

During 2021, the Bank purchased 13,890 shares of the KABA-R-A series (0.0786% of shares in total shares) with nominal value of HRK 10 per share at an acquisition price of HRK 7.16 per share. The total acquisition cost was HRK 99,452.40. During the repurchase the Bank had formed reserves for the repurchase of own shares from retained earnings. During 2021 the subject shares were sold at a price equal to the price of their acquisition.

The Bank acquired the subject shares on the basis of a legal obligation to shareholders who have stated their right to repurchase, in connection with the withdrawal of these shares from the Zagreb Stock Exchange at the beginning of 2021.

Other important information

The negative impact of the COVID 19 pandemic on the operations of the clients to which the Bank was exposed was not significant. As of the end of 2021, the Bank did not record active COVID measures against any client.

The negative effect of the pandemic affected to a lesser extent the operations of only a few business entities and it was assessed that this effect was not of more permanent character in terms of their creditworthiness which was confirmed by their regular repayment status in terms of their credit obligations to the Bank. Therefore, the effect of the reclassification of the subject placements in 2021 was of a minor material significance.

Plans and expectations of the Bank for 2022

Recent developments in the region confirm that risks to financial stability remain higher than before the crisis due to uncertainty over the end of the pandemic, rising consumer price inflation and strong growth in residential property prices as well as increasing geopolitical risks.

In response to the continued accumulation of cyclical systemic risks, in particular the rise in residential property prices and the dynamisation of lending activity in the housing loans segment, the CNB announced raising the countercyclical capital buffer rate for Croatia from the current 0% to 0.5% with effect from 31 March 2023. The aim of the measure is to ensure the timely allocation of additional capital to strengthen the resilience of credit institutions to possible losses associated with exposure to cyclical systemic risks in the downward phase of the financial cycle or in the event of a sudden crisis.

Respecting the macroeconomic forecasts for 2022 which were presented in the introduction as well as the well-known capital position of the Bank at the end of 2021 and the financial position which is characterised by a high degree of liquidity and continuous surpluses, the Bank defined a business plan for 2022 which contains basic goals and measures for achieving those goals.

In addition to retaining the business model, the business plan for 2022 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

Activities and measures that will be taken by the Bank in 2022 will be aimed at achieving the following goals:

- Increase in total net operating income
- Credit growth
- Further decrease in non-performing loans to 3.5% of all loans
- Maintaining the level of business efficiency at 55-56% of C/I

Basic settings of the financial plan are:

- Asset change rate: +8%
- Deposit change rate: +8% with expected continuing trend of increasing a vista deposits and decreasing term deposits
- Net loans to other customers change rate: +12.2%
- ROA: 0.8%, ROE: 11.2%

There is a justified expectation for the Bank, its clients and the wider local community that the Bank will continue to nurture its brand as the regional bank, which it has built in more than 70 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 and the members of the Supervisory Board for their continuous support and cooperation.

I also want to express my gratitude to the employees whose expertise and hard work contributed unquestionably to the successful operations of the Bank in the past year.

Karlovac, 18 February 2022

PRESIDENT OF THE MANAGEMENT BOARD



Željka Surač

KARLOVAČKA BANKA
Joint-stock company
Supervisory Board

REPORT
ON THE ACTIVITIES OF THE SUPERVISORY BOARD IN 2021

In 2021 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 in 2021 held a total of 32 sessions, of which all 32 were held by fax.

During 2021, the Risk and Audit Committee held 2 sessions by phone and 7 briefings, of which the Supervisory Board was informed.

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 2021 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 for adoption to the General Assembly of the Bank.

Karlovac, 14 February 2022

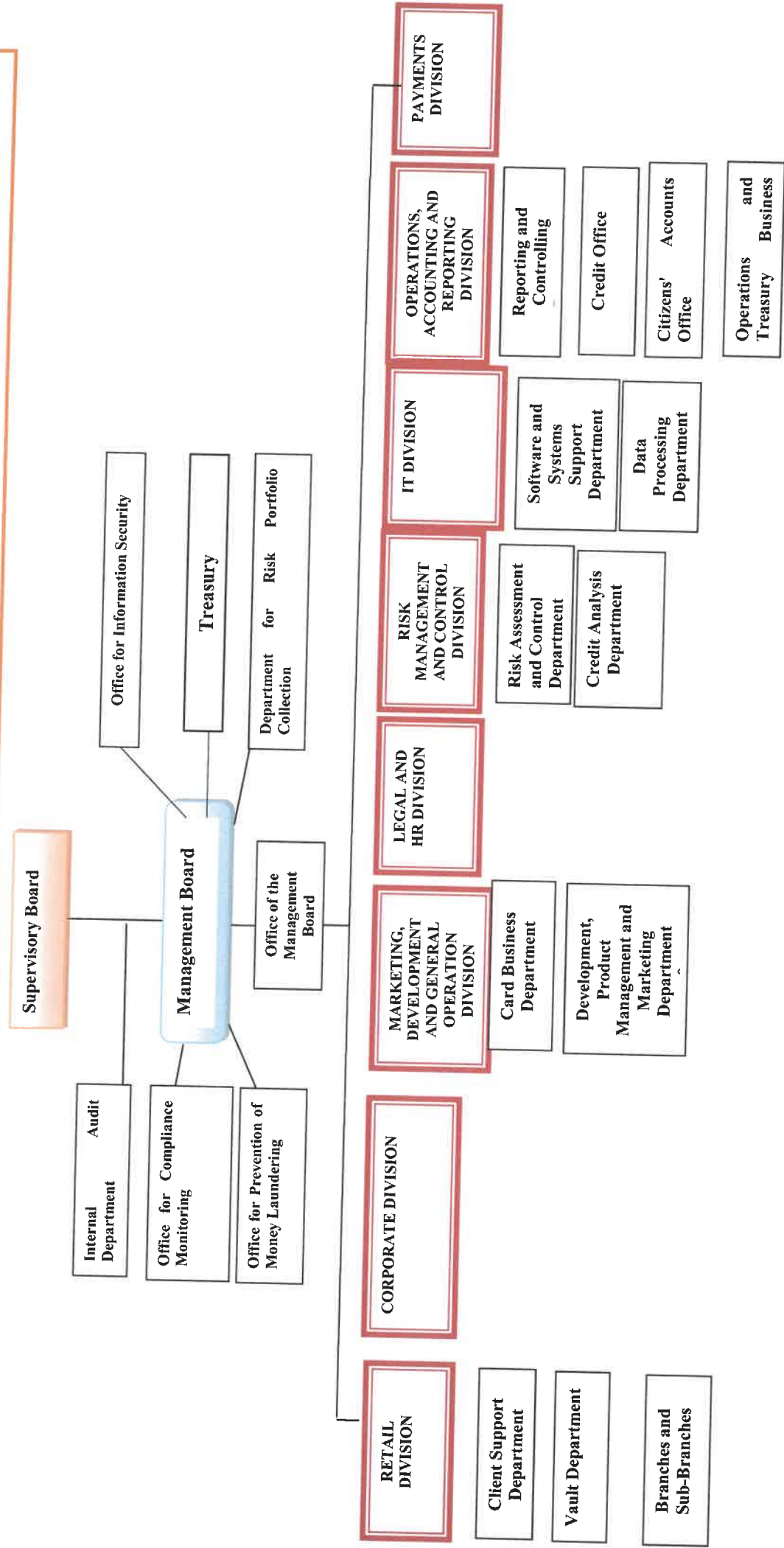


President of the Supervisory Board

mr.sc. Nedjeljko Strikić

Management and Corporate Governance

Organisational chart of Karlovačka banka d.d.



Correspondent Banks – Account Relationships as at 31 December 2021

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

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

KARLOVAČKA BANKA d.d. KARLOVAC
ANNUAL FINANCIAL STATEMENTS FOR 2021

EUR	Karlovačka Banka dd, Karlovac	KALC HR 2X	IBAN: HRPKALC2400008, T2HR	CP	FX	MM
EUR	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X	IBAN: HR2023400091990016076	CP		
EUR	Raiffeisenbank Austria dd, Zagreb	RZBH HR 2X	IBAN: HR4524840081900001492	CP	FX	MM
EUR	UniCredit SpA, Milan	UNCR IT MM	IBAN: IT40L0200832978000000000925	CP	FX	MM
EUR	Zagrebačka banka dd, Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
GBP	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X	IBAN: HR2023400091990016076	CP		
GBP	Zagrebačka banka dd, Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
HRK	Karlovačka Banka dd, Karlovac	KALC HR 2X		CP		
JPY	Zagrebačka banka dd, Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
NOK	Zagrebačka banka dd, Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
SEK	Skandinaviska Enskilda Banken AB, Stockholm	ESSE SE SS	IBAN: SE5650000000052018512463	CP	FX	MM
SEK	Zagrebačka banka dd, Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547	CP	FX	MM
USD	Raiffeisenbank Austria dd, Zagreb	RZBH HR 2X	IBAN: HR8224840081900001505		FX	MM
USD	Zagrebačka banka dd, Zagreb	ZABA HR 2X	IBAN: HR3423600001900000547		FX	MM
USD	Erste and Steiermaerkische bank dd, 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 2021 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 appropriate 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 the assumption is inappropriate.

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 and 119/2021), have been approved by the Management Board on 14 February 2022 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, 18 February 2022

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 2021, the Income Statement and the Statement of Other Comprehensive Income, the Cash Flow Statement, 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 2021, 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 Gazette 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 2021 and 31 December 2020. In accordance with the Credit Institutions Act, this company does not meet the conditions for consolidation within the Karlovačka banka d.d. Group and 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.

Almost the entire assets of this subsidiary consist of real estate – land intended for construction, which is also given as collateral for the due loan that this company has in the Bank and other liabilities of the company. After provisions for estimated loan losses, the Bank's exposure to this loan amounts to HRK 5,493 thousand. In 2021, the Bank conducted enforcement proceedings on the land in question but by the end of the year it failed to register ownership of part of land plots in its own name, and the Bank and its subsidiary did not record the executed enforcement in their business books by 31 December 2021. The value of real estate as awarded to the Bank's in accordance with the decision of the competent court that conducted the enforcement procedure amounts to HRK 24,234 thousand.

We were unable to determine with certainty the effects of these issues on the financial statements of the Bank.

INDEPENDENT AUDITOR'S REPORT – continued

Report on the Audit of the Annual Financial Statements - continued

Basis for qualified opinion - continued

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.

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 that 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.

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><u>Impairments of 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 for impairment of loan losses and the Bank's exposure in terms of granted loans and advances and Note 45 which displays the Bank's total exposure to credit risk.</p> <p>In the Statement of financial position (Balance sheet) at 31 December 2021 the net value of loans and advances to customers is shown in the amount of HRK 1,174,462 thousand which represents 37.9% of the total assets of the Bank. Impairments of loan losses amount to HRK 87,829 thousand representing 2.8% of the Bank's total assets. Impairment estimates include significant estimates and assumptions made by the Bank's management. Impairments are recognised on the basis of incurred loan losses and on the basis of expected loan losses.</p> <p>The level of impairments depends on the estimated time and amount of future cash flows, the assumption of the borrower's financial position, the quality and valuation of collateral, the time in which the collateral is to be realised and so on.</p> <p>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>During the audit we gained understanding of the Bank's process related to performed impairments on granted loans by:</p> <ul style="list-style-type: none"> - conducting audit procedures to verify the existence and effectiveness of internal controls in the process of granting loans, monitoring loan repayments, determining loan losses, - analyzing the adopted model of assessment and calculation of impairment losses by the Bank with additional clarification of the process through interviews with key persons in the Bank. <p>We 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 regularity in settling liabilities to the Bank, the debtor's financial position, the quality and value of the collateral with estimated realisation time when calculating the impairment. We analysed the calculation and the bookkeeping of impairments. In addition, the Bank particularly monitors and identifies loan losses in the portfolio of small loans.</p> <p>Exposures in the portfolio of small loans which are not secured by adequate collateral are evaluated solely on the basis of regularity in settling liabilities to the Bank. If adequate collaterals exist, the assessment of loan losses is based on two criteria: the debtors' regularity in settling obligations and monitoring the value and marketability of the collateral.</p> <p>We analysed and tested the established system of monitoring the number of days from maturity to the settlement of liabilities to the Bank as well as the system of collateral valuation to the selected sample of these loans.</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>

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
Impairments of loans are considered to be the key audit matter due to the complexity of the appraisal process and the significant participation of key management's judgement in assessing losses.	We analysed the established model and the adopted methodology for calculating impairment provisions that the Bank carried out on these exposures.

The 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 explicitly stated in the section of our Independent Auditor's Report entitled Report on other legal requirements and we do not express any form of assurance conclusion thereon.

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 audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this regard, we refer to the matters described in the section entitled Basis for qualified opinion and the impact of said matters on the same items in the report of the Management Board.

Responsibilities of the Management Board and Those charged with Governance for the Annual Financial Statements

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 Gazette 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 the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT – continued**Report on the Audit of the Annual Financial Statements - continued****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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Financial Statements.

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 one resulting from 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 those charged with governance 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 identify 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 30 March 2021 to perform the audit of Annual Financial Statements for 2021.
2. Our uninterrupted engagement has lasted for four years relating to periods ended 31 December 2018, 2019, 2020 and 2021.
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 2021 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 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 2021 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 on other legal requirements - 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 2021 is in line with the accompanying Annual Financial Statements of the Bank for 2021.
2. In our opinion, based on the work we performed during the audit, the accompanying Report of the Management Board of the Bank for 2021 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, 122/2020 and 119/2021), (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 Statement of financial position (the Balance Sheet) of the Bank as at 31 December 2021, 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.

Marija Maltar



Director:
Stjepan Šargač, dipl. oec.
Certified auditor

Stjepan Šargač

Varaždin, 18 February 2021

HLB Revidicon d.o.o.
Ankice Opolski 2
42000 Varaždin
Republika Hrvatska

KARLOVAČKA BANKA d.d.
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

Description	Note	2021 HRK ,000	2020 HRK ,000
Interest income	4	53,970	56,264
Interest expense	5	(3,430)	(5,696)
Net interest income		50,540	50,568
Fees and commissions income	6	25,696	22,922
Fees and commissions expense	7	(7,220)	(6,608)
Net income from fees and commissions		18,476	16,314
Profit from financial activities	8	14,590	9,699
Net foreign exchange gains (expenses)	9	(199)	(279)
Other income	10	1,410	24,554
Total other income		15,801	33,974
General administrative and other operating expenses	11,12,13	(51,737)	(64,597)
Impairments and provisions	14	(5,864)	(6,361)
Total other expenses		(57,601)	(70,958)
Profit before tax		27,216	29,898
Income tax	15	(2,199)	(396)
Profit for the year		25,017	29,502
Profit/(loss) per share in HRK	16	1.42	1.68
Other comprehensive profit / (loss)			
Other comprehensive profit (loss) for the year, net of tax		366	-
TOTAL COMPREHENSIVE PROFIT/(LOSS)		25,383	29,502
Profit/(loss) per share in HRK	16	1.44	1.68

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 2021

Description	Note	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
ASSETS			
Cash	18	908,311	663,658
Receivables from the Croatian National Bank	19	155,833	141,385
Placements with banks	20	102,252	19,314
Financial assets through other comprehensive income	21	149	150
Financial assets at depreciated cost	22	675,279	561,537
Financial assets at fair value through income statement and not actively traded with (FOB and FOP)	23	10,811	11,447
Loans and advances to customers	24	1,174,462	1,186,602
Investments in subsidiaries	3.10	-	-
Property, plant and equipment	25	21,819	24,999
Intangible assets	26	15	105
Foreclosed assets and real estate investments	27	25,674	25,739
Other assets	28	26,829	11,315
Total assets		3,101,434	2,646,251
LIABILITIES			
Liabilities to banks	29	18	1
Demand deposits	30	1,966,155	1,443,229
Term deposits	31	873,713	923,928
Loan liabilities	32	1,660	2,072
Other liabilities	33	12,228	12,898
Provisions	34	5,342	3,730
Hybrid instruments	35	10,379	53,837
Total liabilities		2,869,495	2,439,695
CAPITAL			
Share capital	36	176,678	176,678
Profit for the year		25,017	29,502
Reserves		30,244	376
Total capital		231,939	206,556
Total liabilities and capital		3,101,434	2,646,251

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 2021

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	HRK ,000
Balance as at 31 December 2019	176,678	0	0	0	0	0	0	(20,517)	20,893	177,054
Profit allocation	0	0	0	0	376	0	0	20,517	(20,893)	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
Profit for the period	0	0	0	0	0	0	0	0	29,502	29,502
Balance as at 31 December 2020	176,678	0	0	0	376	0	0	0	29,502	206,556
Profit allocation	0	0	0	0	1,475	0	0	28,027	(29,502)	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	366	0	366
Profit for the period	0	0	0	0	0	0	0	0	25,017	25,017
Balance as at 31 December 2021	176,678	0	0	0	1,851	0	0	28,393	25,017	231,939

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 STATEMENT – INDIRECT METHOD
For the year ended 31 December 2021

Description	2021 HRK ,000	2020 HRK ,000
NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	27,216	29,898
<i>Adjustment to net cash assets from operating activities</i>		
Depreciation	3,938	4,354
Loan impairments	2,620	9,778
Impairments and adjustments of other assets	254	(305)
Provisions for court disputes and employees	(136)	(3,836)
Value adjustments of property, plant and equipment and foreclosed assets	972	688
Other impairments and provisions (net)	2,154	36
(Increase) / Decrease in receivables from CNB	(14,451)	21,921
(Increase) / Decrease in placements with banks	(267)	8,597
(Increase) / Decrease in loans and advances to customers	9,520	(84,007)
Decrease in financial assets through other comprehensive income	1	-
(Increase) in financial assets at depreciated cost	(114,210)	(259,016)
Decrease in financial assets at fair value through income statement	636	216,994
(Increase) in other assets	(15,767)	(3,657)
Increase /(Decrease) in liabilities to financial institutions	17	(172)
Increase in demand deposits	522,926	320,188
(Decrease) in term deposits	(50,215)	(99,197)
(Decrease) in other liabilities	(328)	(2,982)
Paid income tax	(2,199)	(396)
Net cash flow from operating activities	372,681	158,886
CASH FLOW FROM INVESTMENT ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(488)	(1,264)
(Increase)/Decrease in foreclosed assets	(907)	39,653
Other changes	(180)	379
Net cash flow from investment activities	(1,575)	38,768
CASH FLOW FROM FINANCIAL ACTIVITIES		
(Decrease) in loan liabilities	(412)	(1,653)
(Decrease)/Increase in hybrid instruments	(43,458)	37
Other changes in capital (net)	366	-
Net cash flow from financial activities	(43,504)	(1,616)
Net change in cash and cash equivalents	327,602	196,038
Cash and cash equivalents at year beginning (note 38)	678,865	482,827
Cash and cash equivalents at year end (note 38)	1,006,467	678,865

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

I GENERAL INFORMATION ON THE BANK

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 is 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 2021 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 2021 and 31 December 2020 are stated below:

Shareholder	31 Dec 2021	31 Dec 2020
	%	%
Marko Vuković	44.52	44.45
Ivan Žabčić	44.52	44.45
Pinjuh Jakov	1.75	1.75
Stanić Miro	1.75	1.75
Sandi Šola	1.69	1.69
Guerrero Devlahovic Jaime Ivan	0.65	0.65
Projekt Mejaši	0.34	0.34
Hrvatski rukometni savez	0.32	0.32
Gašpar Ante	0.30	0.30
Dragović Tatjana	0.25	0.25
Other shareholders	3.91	4.05
TOTAL	100.00	100.00

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 2021 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 2021 the Bank had 166 employees (31 December 2020: 166 employees). Employee qualification structure as at 31 December 2021 and 31 December 2020 is stated below:

DESCRIPTION	Number of employees	Number of employees
	31 Dec 2021	31 Dec 2020
PhD	1	1
Master's degree	2	2
University degree	72	76
College degree	15	12
Secondary school	76	75
TOTAL	166	166

At 31 December 2021 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 and Topusko.

II 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 and in accordance with 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:

- 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'*. Calculations according to the CNB's Decision usually result in higher provisions and impairments.
- 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 risk of loss 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. As at 31 December 2021 the Bank had no such provisions (as at 31.12.2020 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 that are 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 judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities as well as disclosure of contingent liabilities at the balance sheet date and 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 as well as the 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.

Estimates and key assumptions are reviewed regularly. Changes to accounting estimates are recognised in the period in which they occur if they impact that period exclusively, 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 fixed 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

The Bank has consistently applied the adopted accounting policies. Changes in accounting standards in 2020 and 2021 had no material impact on the preparation and presentation of the Bank's financial statements for the current and comparative period.

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 during the relevant period.

Interest income receivables accrued for exposures in risk categories A1, A2 and B1 are recorded in the Bank's balance sheet accounts.

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

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

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 fees on loans which are 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. Fees and commissions income and expenses

Fees and commissions 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 securities and equity securities held for trading, other financial instruments carried at fair value through income statement and derivative financial instruments.

III SUMMARY OF ACCOUNTING POLICIES - continued

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 HRK.

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

Non-monetary items denominated in foreign currencies and valued at fair value are translated to HRK using the exchange rates at the date of determining the fair value. 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.

3.7. Taxes

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 the positions taken in the tax returns periodically 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.

III SUMMARY OF ACCOUNTING POLICIES - continued

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 employee cost upon occurrence.

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 regular 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 ranges from 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.

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 cost', '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 contractual 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 IFRS 9

IFRS 9 – Financial instruments has introduced an 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 contractual cash flows.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.9. Financial instruments - continued

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 default.

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

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 real probability 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.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.9. Financial instruments - continued

b) Securities and other financial instruments 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 by the counterparty. Reclassification of the instrument can only be carried out in an exceptional case.

c) Securities and other financial instruments required at fair value through 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 incur. 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 by the counterparty. 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, which includes 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.).

III SUMMARY OF ACCOUNTING POLICIES - continued

3.9. Financial instruments – continued

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. After the derecognition of the instrument, 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.

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 placed 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.

According to the decision of the competent court, the value of the real estate awarded to the Bank amounted to HRK 24,234 thousand.

Due to a change in the area of part of the land register parcel, the Land Registry Department of the competent municipal court refused to register part of the real estate owned by the Bank by the end of 2021 for which reason the Bank and its subsidiary did not record the execution of the enforcement in their business books by 31 December 2021. The Bank further estimates that the relevant value does not represent either the acquisition cost or the fair value as defined in IFRS 5 – Fixed Assets Held for Sale and Discontinued Operations. The final effect of the takeover of the real estate in exchange for the uncollected receivable will be recorded after the sale of the subject land, which value was not known at the time of compiling the financial statements.

III SUMMARY OF ACCOUNTING POLICIES – continued

3.10. Investments in subsidiaries - continued

The Bank's net exposure to this company, after provisions for estimated loan losses, amounted to HRK 5,493 thousand at 31 December 2021.

The Bank does not intend to support the continuation of the company's operations after the completion of the enforcement proceedings, i.e. the sale of the subject land and the settlement, that is, the partial settlement of the company's liabilities.

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

In its business books, the Company shows its investment in land in the amount of investment costs and its loan liabilities in the amount of gross principal plus interest. The Bank has recorded in its business books loan losses related to the settlement of the sale of the land in question, so it estimates that the effect of consolidation would not adversely affect the reported results of the Bank's operations. The Bank fully adjusted its investment in the said company in the amount of HRK 20 thousand.

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 all 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	2021	2020
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 the near future. If there are no data on prices of the sale of similar real estate, then the cost method is used.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.12. Property and equipment - continued

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 by writing off the cost of property, apart from current investments, using the straight-line method during estimated useful life as follows:

Description	2021	2020
Buildings	40 years	40 years
IT equipment	4 years	4 years
Furniture	10 years	10 years
Personal vehicles	5 years	5 years
Other	10 years	10 years

During 2017 Karlovačka banka carried out the division of the purchase value of buildings into the value of land and the value of buildings 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.

Right-of-use assets

IFRS 16 Leases – the standard effective as from 1 January 2019 introduces a new comprehensive model for identifying arrangements that contain leases as well as their accounting treatment by the Bank as the lessee. The Bank recognises assets and liabilities in its financial statements in part of lease contracts. 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 lease agreements with a lease term not exceeding 12 months and lease contracts of small value. 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.

Assets of small value are assets with new purchase value that does not exceed HRK 32,500 or assets with lease area that is less than 5 m².

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 right-of-use assets 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 right-of-use assets 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 right-of-use assets for 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 simplified and modified approach by recognising right-of-use assets in an amount equal to the lease obligation.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.13. Assets acquired in lieu of uncollected receivables and real estate investments

The Bank assesses marketability of assets acquired in lieu of uncollected receivables and recognises as assets only marketable assets the value of which can be measured reliably. Foreclosed assets are carried at the net recoverable amount of the related loan receivable or the fair value of the asset, whichever is lower. 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.

Real estate investments

According to IAS 40 – Real estate investment, the real estate investment is property (land or a building or part of a building or both) owned (by the owner or lessee under a financial lease) to generate rental income or to increase in value or both.

These properties are measured at cost initially. After initial recognition in the asset, they are stated at cost less accumulated depreciation and accumulated impairment losses in accordance with IAS 16. Investments are subject to impairment tests for fair value if the investment costs exceed the value of the property at acquisition.

3.14. Loan liabilities

Liabilities for received loans are recognised in accounting records at nominal value arising from the business transaction based on the contract or another authentic accounting document.

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

3.16. Earnings per share

Earnings per share are calculated by dividing net profit by the weighted average number of existing shares (ordinary shares) for the observed period, excluding own shares.

3.17. Issued subordinated and hybrid instruments

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

Subsequent valuation and presentation of subordinated and hybrid instruments is performed 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 regularly. Revisions to accounting estimates are recognised in the period in which they arise if they affect only that period or in the period in which they occur and in future periods if they affect current and future periods.

a) Losses from impairment of loans

The Bank conducts loan evaluation procedures at least on a quarterly basis. The rules/valuation methods are defined by the internal act on classification of placements. The assessment is based on the acceptance of the basic classification criteria – creditworthiness, regularity and quality of collateral.

Impairment for exposures that are not secured by adequate collateral is carried out on the basis of default days, while in assessing the required impairment for exposures secured by adequate collateral, the criterion of quality and value of collateral is used in addition to the criterion of default days as well as the type of measures taken for collection and historical data on deadlines for liquidation with the application of reduction factors for individual type of collateral. Impairment is determined as the positive difference between the gross carrying amount of an individual exposure and the present value of estimated future cash flows discounted at 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 course of its business, the Bank issued guarantees and letters of credit and granted loans that were not fully utilised and other contingencies and these were 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 on contingent liabilities and commitments are maintained at a level that the Bank's Management Board deems sufficient to absorb possible future losses. The Management Board determines the adequacy of provisions based on reviews of individual items, current economic conditions, risk characteristics of different categories of transactions and other pertinent factors.

Impairment is carried out at least on a quarterly basis in accordance with the criteria and rules prescribed by the internal act on the classification of placements and off-balance sheet liabilities.

Regarding the classification criteria and the division according to the degree of risk, the Bank applies rules identical to the rules for balance sheet items. The amount of the offsetting for an individual off-balance sheet liability is equal to the amount of expected future expenses for settling off-balance sheet liability that the Bank will not be able to recover.

If the effect of the time value of money is significant, the amount of the provision is equal to the discounted value of expected future irrecoverable outflows to settle the off-balance sheet liability using a discount rate that corresponds to the current market value of the money. The effect of the time value of money is considered significant when it is estimated that the outflow of money will occur in a period longer than one year and the amount of expected outflow is greater 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 include cash, placements and deposits to banks with maturities of up to 90 days.

3.21. Operating segments

Operating segments are accounted for in accordance with internal reporting 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 main segments: Corporate, Individuals, 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 set limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet liabilities, provisions for credit risk, liquidity risk, interest rate risk and investments in tangible assets.

Regarding the applicable regulatory limits in 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 2021 the regulatory capital ratio amounted to 22.19% (31 December 2020: 20.55%) 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	2021	2020
	HRK ,000	HRK ,000
Corporates	13,478	12,728
Individuals	33,255	34,722
Financial institutions	407	643
Public sector	6,752	8,076
Other	78	95
Total interest income	53,970	56,264

b) Interest income – Analysis by product

Description	2021	2020
	HRK ,000	HRK ,000
Loand and receivables from customers	50,311	51,817
Loans and receivables from financial institutions	395	585
Debt securities	3,222	3,814
Other	42	48
Total interest income	53,970	56,264

NOTES TO THE INCOME STATEMENT - continued

5. Interest expenses

a) Interest expenses – Analysis by recipient

Description	2021 HRK ,000	2020 HRK ,000
Corporates	25	45
Individuals	2,526	5,106
Financial institutions	774	491
Public sector	102	49
Non-profit institutions	3	5
Total interest expenses	3,430	5,696

b) Interest expenses – Analysis by product

Description	2021 HRK ,000	2020 HRK ,000
Transaction accounts and deposits from individuals	920	2,356
Transaction accounts and deposits from corporates and other companies	76	74
Loans from financial institutions	-	23
Hybrid instruments	1,604	2,746
Interest on deposits with CNB and financial institutions	774	468
Other	56	29
Total interest expenses	3,430	5,696

NOTES TO THE INCOME STATEMENT - continued

6. Fee and commission income

Description	2021 HRK ,000	2020 HRK ,000
Payments	10,691	9,412
Approved loans	436	434
Guarantees and Letters of credit	913	866
Self-service devices	4,898	4,412
Account maintenance fees	5,367	4,635
Giro and current account cards	394	538
Credit cards	364	325
Mobile, Phone and Internet Banking	1,548	1,366
Mandates	58	58
Various service packages	366	364
Fees from foreign exchange transactions of individuals	311	225
Other	350	287
Total fee and commission income	25,696	22,922

7. Fee and commission expenses

Description	2021 HRK ,000	2020 HRK ,000
Payment service fee	3,876	3,257
Accepting and processing card transactions	2,263	2,305
Other	1,081	1,046
Total fee and commission expenses	7,220	6,608

8. Profit from financial activities

Description	2021 HRK ,000	2020 HRK ,000
Profit/loss from foreign currency trading	14,860	10,461
Loss from HRK trading	(14)	(20)
Profit/loss from securities not actively traded with and valued at fair value through income statement	(528)	(738)
Profit/loss from securities classified at depreciated cost	272	(4)
Total profit from financial activities	14,590	9,699

NOTES TO THE INCOME STATEMENT - continued

9. Net foreign exchange income and expenses

Description	2021 HRK ,000	2020 HRK ,000
Currency differences on translations	1,971	(9,393)
Currency differences from currency clause	(2,170)	9,114
Total net foreign exchange income	(199)	(279)

10. Other operating income

Description	2021 HRK ,000	2020 HRK ,000
Income from sale of tangible assets	603	23,953
Write-offs of old and inactive accounts	440	159
Court settlements and reimbursements	42	4
Office leases	137	182
Collection of damages and interest from previous years	49	11
Income from various contractual relationships	12	6
Other unspecified income	127	239
Total other operating income	1,410	24,554

11. General administrative and other operating expenses

Description	2021 HRK ,000	2020 HRK ,000
Staff costs (note 12)	26,451	26,713
Depreciation (note 25 and 26)	3,938	4,354
Other operating expenses (note 13)	21,348	33,530
Total general administrative and other operating expenses	51,737	64,597

NOTES TO THE INCOME STATEMENT - continued

12. Staff costs

Description	2021	2020
	HRK ,000	HRK ,000
Net salaries	13,841	13,922
Taxes and contributions from salaries	5,182	5,554
Contributions	3,151	3,260
Reimbursements to employees	4,277	3,977
Total staff costs	26,451	26,713

As at 31 December 2021 the Bank had 166 employees (31 December 2020: 166 employees).

13. Other operating expenses

Description	2021	2020
	HRK ,000	HRK ,000
Cost of material and similar expenses	1,498	2,210
Costs of services	11,041	9,944
Entertainment, advertising and promotion expenses	685	540
Remuneration of Supervisory Board	598	623
Losses from sold and depreciated fixed assets	54	1,470
Associated costs of selling fixed assets	67	12,158
Costs of court proceedings, settlements and penalties	6,067	515
Savings deposits insurance	-	4,792
Other	1,338	1,278
Total other operating expenses	21,348	33,530

NOTES TO THE INCOME STATEMENT - continued

14. Impairment and provisions costs

Description	2021	2020
	HRK ,000	HRK ,000
Correction – impairment of loans and advances to customers (note 24)	722	9,034
Correction – impairment of other assets (note 28)	254	(305)
Impairment for expected credit losses (note 24)	1,899	744
Correction – impairment of financial assets at depreciated cost (note 22)	467	1,064
Collection of previously written-off receivables	(344)	(51)
Provisions for commitments and contingent liabilities (note 34)	1,749	(860)
Provisions for court disputes and employees (note 34)	(136)	(3,836)
Correction – impairment of bank placements (note 20)	128	(87)
Correction – impairment of receivables from CNB (note 19)	3	(8)
Impairment of cash (note 18)	150	(22)
Impairment of tangible assets intended for sale and foreclosed assets (note 25 a) and 27)	972	688
Total impairment and provision costs	5,864	6,361

15. Income tax

Description	2021	2020
	HRK ,000	HRK ,000
Accounting profit	27,216	29,898
Items increasing the tax base	3,845	4,015
Items decreasing the tax base	(19,043)	(33,454)
Income after increase and decrease	12,018	459
Tax base	12,018	459
Income tax rate	18%	18%
Tax liability	2,163	83
Changes in deferred tax assets	36	313
Total income tax liability	2,199	396

Income tax is calculated in accordance with Croatian legislation. The tax rate on taxable income is 18% (2020: 18%). As at 31 December 2021 shown income tax liability was increased by HRK 36 thousand of used tax assets and the current income tax liability in the Bank's income statement was HRK 2,163 thousand.

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 the Bank's shareholders. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deduction of ordinary treasury shares. The weighted average number of ordinary shares used to calculate basic earnings per share was 17,559,585 (2020.: 17,559,585). Since there is no effect of dilution of other instruments, basic and diluted earnings per share are the same.

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Profit / (Loss) for the year	25,017	29,502
Weighted average number of ordinary shares (in thousand)	17,560	17,560
Profit(Loss) per share	1.42	1.68

17. Financial information by segment

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

The Individuals segment includes individuals, craftsmen and free-lance professions.

The Corporates segment includes public and private companies.

The Financial institutions segment includes credit institutions, funds, insurance companies and other institutions engaged in financial activities.

The Other segment includes assets and liabilities that not included within other segments.

The Bank's operating activities and customers are located mostly in the Republic of Croatia and for that reason the geographical details by segments are not published.

a) Income statment by segment for 2021 – operating segments

Description	Individuals HRK ,000	Corporates HRK ,000	Financial institutions HRK ,000	Other HRK ,000	Total HRK ,000
Net interest income	30,729	13,453	(367)	6,725	50,540
Net fees and commissions income	14,717	5,917	(3,520)	1,362	18,476
Provisions and impairments of placements	1,372	(5,881)	(855)	(500)	(5,864)
Other	(22,483)	(9,256)	(3,994)	(203)	(35,936)
Result by segment	24,335	4,233	(8,736)	7,384	27,216
Income tax	(1,618)	(211)	-	(370)	(2,199)
Net result by segment	22,717	4,022	(8,736)	7,014	25,017

NOTES TO THE INCOME STATEMENT - continued

b) Income statement by segment for 2020 – operating segments

Description	Individuals HRK ,000	Corporates 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 impairments of placements	(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

c) Statement of financial position (Balance sheet) as at 31 December 2021 – operating segments

Description	Individuals HRK ,000	Corporates HRK ,000	Financial institutions HRK ,000	Other HRK ,000	Total HRK ,000
Net placements	684,978	321,275	8,044	160,165	1,174,462
Financial assets through other comprehensive income	-	8	141	-	149
Financial assets at depreciated cost	-	54,520	-	620,759	675,279
Financial assets at fair value through income statement and not actively traded with (FOB and FOP)	-	73	10,738	-	10,811
Other	452	876	1,214,388	25,017	1,240,733
Assets by segment	685,430	376,752	1,233,311	805,941	3,101,434
Deposits and hybrids	1,949,043	687,095	496	213,631	2,850,265
Loans	-	-	1,660	-	1,660
Other	7,343	7,408	281	2,538	17,570
Liabilities by segment	1,956,386	694,503	2,437	216,169	2,869,495

NOTES TO THE INCOME STATEMENT - continued

17. Financial information by segment - continued

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

Description	Individual s HRK ,000	Corporate s HRK ,000	Financial institutions HRK ,000	Other HRK ,000	Total 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 and not actively traded with (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

18. Cash

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Giro account	649,799	447,619
Cash in hand:		
- HRK	29,937	30,201
- foreign currency	20,459	19,161
Cash in foreign current accounts with foreign banks	115,253	132,434
Cash in foreign current accounts with domestic banks	93,195	34,425
Impairment	(332)	(182)
Total cash	908,311	663,658

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 below:

Description	2021 HRK ,000	2020 HRK ,000
Balance as at 1 January	(182)	(204)
Net impairment (note 14)	(150)	22
Balance as at 31 December	(332)	(182)

19. Receivables from the Croatian National Bank

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Obligatory reserve		
- HRK	155,868	136,694
Other deposits	-	4,723
Impairment	(35)	(32)
Total receivables from the Croatian National Bank	155,833	141,385

According to CNB Decision the Bank is required to calculate obligatory reserves in the amount of 9% (2020: 9%) 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 HRK 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% (2020: 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 is 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 for banks to maintain at least 2% of the foreign currency minimum reserve requirement by the average daily balance of funds in their own EUR settlement accounts with the CNB, respectively in 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 - continued

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:

Description	2021 HRK ,000	2020 HRK ,000
Balance as at 1 January	(32)	(40)
Net impairment (note 14)	(3)	8
Balance as at 31 December	(35)	(32)

20. Placements with banks

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Short term deposits with foreign banks	98,297	15,220
Guarantee deposits	4,096	4,107
Impairment	(141)	(13)
Total placements with banks	102,252	19,314

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

Description	2021 HRK ,000	2020 HRK ,000
Balance as at 1 January	(13)	(100)
Net impairment (note 14)	(128)	87
Balance as at 31 December	(141)	(13)

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

21. Financial assets valued through other comprehensive income

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Investments in equity securities	149	150
Total financial assets through other comprehensive income	149	150

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

DESCRIPTION	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
SKDD d.d. Zagreb	8	8
Tržište novca d.d. Zagreb	-	1
HROK d.o.o.	141	141
Total shares	149	150

/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 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Treasury bills of the Ministry of Finance	185,141	140,194
Corporate bonds	54,831	39,256
Croatian Government bonds	437,633	383,946
Impairment	(2,326)	(1,859)
Total financial assets valued at depreciation cost	675,279	561,537

/i/ Investments in treasury bills of the Ministry of Finance in EUR that mature on 5 May 2022 with the yield of -0.05% (0.06% in 2020).

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 0.02% in 2021 (0.00% to 0.05% in 2020).

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 1 to 5 years and on them the Bank achieved the yield of 0.47% (2020: 0.55%). Croatian Government bonds in foreign currency mature in the period of 1 to 8 years and the Bank achieved the yield of 1.03% (2020: 1.03%).

iii/ Croatian Government bonds with currency clause in EUR mature in 2022, 2024 and 2027 and the Bank achieved the yield of 0.18% (2020: 0.75%).

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

/v/ Corporate bonds in HRK mature in 2023 and 2026 and the Bank achieved the yield of 1.29% (2020: 1.55%).

/vi/ Corporate bonds in USD mature in 2022 and the Bank achieved the yield of 2.394% (2020: 2.394%).

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

Description	2021 HRK ,000	2020 HRK ,000
Balance as at 31 January	(1,859)	(795)
Net impairment (note 14)	(467)	(1,064)
Correction of IFRS-9	-	-
Balance as at 31 December	(2,326)	(1,859)

23. Financial assets at fair value through income statement

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Shares in investment funds	10,738	11,270
Other bonds	-	64
Equity securities	73	113
Total financial assets at fair value through income statement	10,811	11,447

Shares in investment funds refer to investments in the bond fund of Eurozone member states and the achieved yield was -4.47% (2020: 2.84%).

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

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

Investments in equity securities refer to investment in shares of Varteks (HRK 73 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 Dec 2021</u>	<u>31 Dec 2020</u>
	<u>HRK ,000</u>	<u>HRK ,000</u>
Corporates	371,086	425,367
Individuals and sole traders	724,782	704,908
Other	168,429	168,376
Collected fees related to future periods	(2,006)	(2,068)
Loan impairments	(87,829)	(109,981)
Total loans and advances to customers	1,174,462	1,186,602

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

24. Loans and advances to customers - continued

Movements on impairments are shown below:

Description	2021			2020		
	Impairment for losses (B and C)	Impairment for expected losses (A1 and A2)	Total	Impairment for losses (B and C)	Impairment for expected losses (A1 and A2)	Total
	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
Balance as at 1 January	95,297	14,684	109,981	99,445	13,940	113,385
Net impairment (note 14)	722	1,899	2,621	9,034	744	9,778
Currency differences	(41)	-	(41)	155	-	155
Write-offs and other	(24,732)	-	(24,732)	(13,337)	-	(13,337)
Balance as at 31 December	71,246	16,583	87,829	95,297	14,684	109,981

The amount of approved unused overdrafts does not call for commitment of funds in the total amount of approved overdrafts. Overdrafts are granted for a systematic and timely insurance of preconditions for potential 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 2021.

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

24. Loans and advances to customers - continued

Risk concentration by sector in the portfolio of loans to customers is shown below:

Description	31 Dec 2021	31 Dec 2020
	HRK ,000	HRK ,000
Production	72,075	110,373
Trade	134,375	149,429
Tourism	22,433	26,418
Agriculture	15,429	18,397
Construction	185,259	206,033
Services	149,327	108,105
Individuals	674,346	651,811
Other	11,053	28,085
Total by sector	1,264,297	1,298,651
Collected fees related to future periods	(2,006)	(2,068)
Impairments for loan losses	(87,829)	(109,981)
Total net loans and advances to customers	1,174,462	1,186,602

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
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NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET - continued

25. Property, plant and equipment

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

Description	Buildings and land	Right-of-use assets	Equipment	Furniture and vehicles	Other assets	Tangible assets under construction	TOTAL
Cost	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
Balance as at 31 December 2019	54,800	1,248	32,348	10,317	1,749	5,200	105,662
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)
Balance as at 31 December 2020	54,800	869	32,743	10,052	1,635	5,007	105,106
Additions	-	-	-	-	-	330	330
Transfer from assets under construction	33	-	265	-	21	(319)	-
Other transfers	-	270	-	-	-	-	270
Disposals and sales	-	-	(1,225)	(870)	(172)	-	(2,267)
Balance as at 31 December 2021	54,833	1,139	31,783	9,182	1,484	5,018	103,439
Depreciation and impairment							
Balance as at 31 December 2019	38,119	371	26,169	9,283	1,371	2,364	77,677
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)
Balance as at 31 December 2020	39,134	419	27,942	8,907	1,236	2,469	80,107
Depreciation for 2021	1,012	-	2,056	237	10	105	3,420
Depreciation of leased assets	-	428	-	-	-	-	428
Disposals and sales	-	-	(1,181)	(870)	(172)	-	(2,223)
Other transfers	-	(112)	-	-	-	-	(112)
Balance as at 31 December 2021	40,146	735	28,817	8,274	1,074	2,574	81,620

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
For the year ended 31 December 2021

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

25. Property, plant and equipment - continued

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

Description	Buildings and land		Right-of-use assets		Equipment		Furniture and vehicles		Other assets		Tangible assets under construction		TOTAL
	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
Net carrying value as at 31 December 2019		16,681		877		6,179		1,034		378		2,836	27,985
Net carrying value as at 31 December 2020		15,666		450		4,801		1,145		399		2,538	24,999
Net carrying value as at 31 December 2021		14,687		404		2,966		908		410		2,444	21,819

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 40,758 thousand.

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

26. Intangible assets

Overview of changes in intangible assets is shown below:

Description	Software	Investments in leasehold assets	Other assets	TOTAL
<i>Cost</i>				
	HRK,000	HRK,000	HRK,000	HRK,000
Balance as at 31 December 2019	2,257	6,674	533	9,464
Additions	-	-	-	-
Transfer from preparation	-	-	-	-
Balance as at 31 December 2020	2,257	6,674	533	9,464
Disposals and sales	-	-	-	-
Additions	-	-	-	-
Transfer from preparation	-	-	-	-
Balance as at 31 December 2021	2,257	6,674	533	9,464
<i>Depreciation and impairment</i>				
Balance as at 31 December 2019	2,062	6,674	533	9,269
Depreciation for 2020	90	-	-	90
Disposals and sales	-	-	-	-
Balance as at 31 December 2020	2,152	6,674	533	9,359
Depreciation for 2021	90	-	-	90
Disposals and sales	-	-	-	-
Balance as at 31 December 2021	2,242	6,674	533	9,449
Net carrying value as at 31 December 2020	105	-	-	105
Net carrying value as at 31 December 2021	15	-	-	15

27. Foreclosed assets and real estate investments

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Land	6,773	6,785
Buildings	15,411	16,297
Flats and other assets	3,490	2,657
Total:	26,674	25,739

Foreclosed assets

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Land	6,773	6,773
Buildings	6,230	6,424
Flats and other assets	3,490	2,657
Total foreclosed assets	16,493	15,854

/i/ Land stated as at 31 December 2021 in the amount of HRK 6,773 thousand (31 December 2020: HRK 6,773 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 2021 in the amount of HRK 6,230 thousand (31 December 2020: HRK 6,424 thousand) refer mostly to foreclosed buildings intended for office purposes. Total of 5 buildings are located mainly in Karlovac County and two buildings are located in the vicinity of Pakrac.

/iii/ Residential buildings and flats in the total amount of HRK 3,490 thousand contain total of 12 flats, houses and garages which relate, both in number and in value, mostly to those located in the area of Karlovac and in Karlovac County.

/iv/ In addition to specified locations, 1 building in Karlovac in the amount of HRK 7,639 thousand and one building in Zagreb in the amount of HRK 1,543 thousand were reported on real estate investments as at 31 December 2021. As at 31 December 2020 they were classified as assets available for sale in accordance with IFRS 5. As the sale did not take place in the planned timeframe, the assets are further classified as property investment.

27. Foreclosed assets and real estate investments - continued

Overview of changes in foreclosed assets is shown below:

	Land	Buildings	Flats and other assets	Total
<i>Cost</i>	<i>HRK,000</i>	<i>HRK,000</i>	<i>HRK,000</i>	<i>HRK,000</i>
Balance at 31 December 2019	70,566	10,456	8,040	89,062
Foreclosure and property transfer tax	3	8	284	295
Sales	(62,640)	(2,918)	(4,989)	(70,547)
Balance at 31 December 2020	7,929	7,546	3,335	18,810
Foreclosure and property transfer tax	-	279	2,600	2,879
Sales	-	(288)	(1,701)	(1,989)
Balance at 31 December 2021	7,929	7,537	4,234	19,700
<i>Depreciation and impairment</i>				
Balance at 31 December 2019	29,209	1,648	2,375	33,232
Depreciation	-	216	107	323
Sales	(28,053)	(742)	(1,804)	(30,599)
Balance at 31 December 2020	1,156	1,122	678	2,956
Depreciation and impairment	-	185	437	622
Sales	-	-	(371)	(371)
Balance at 31 December 2021	1,156	1,307	744	3,207
<i>Net value at 31</i>				
December 2019	41,357	8,808	5,665	55,830
<i>Net value at 31</i>				
December 2020	6,773	6,424	2,657	15,854
<i>Net value at 31</i>				
December 2021	6,773	6,230	3,490	16,493

27. Foreclosed assets and real estate investments - continued

Overview of changes in real estate investments (in 2020: assets available for sale) is shown below:

Description	Land	Buildings	Flats	TOTAL
<i>Cost</i>	HRK,000	HRK,000	HRK,000	HRK,000
Balance at 31 Dec 2019	12	21,416	43	21,471
Balance at 31 Dec 2020	12	21,416	43	21,471
Balance at 31 Dec 2021	12	21,416	43	21,471
Sales	(12)	(1,279)	-	(1,291)
Balance at 31 Dec 2021	-	20,137	43	20,180
<i>Depreciation and impairment</i>				
Balance at 31 Dec 2019	-	11,178	43	11,221
Depreciation and impairment		365	-	365
Balance at 31 Dec 2020	-	11,543	43	11,586
Depreciation and impairment	-	350	-	350
Sales		(937)	-	(937)
Balance at 31 Dec 2021	-	10,957	43	10,999
Net carrying value at 31 December 2019	12	10,238	-	10,250
Net carrying value at 31 December 2020	12	9,873	-	9,885
Net carrying value at 31 December 2021	-	9,181	-	9,181

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NOTES TO THE FINANCIAL STATEMENTS - continued
For the year ended 31 December 2021

28. Other assets

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Fees and commissions receivables	1,256	1,360
Trade receivables	184	31
Prepayment receivables	24,758	7,310
Prepaid costs	370	413
Prepaid taxes and contributions	9	1,097
Receivables from card transactions	352	247
Receivables from various contractual relations	96	1,266
Other receivables	465	462
Impairment	(1,336)	(1,581)
Net deferred tax assets	675	710
Total other assets	26,829	11,315

Changes in impairments are shown below:

Description	2021 HRK ,000	2020 HRK ,000
Balance at 1 January	1,581	2,217
New impairment (note 14)	597	274
Amounts collected and released (note 14)	(343)	(579)
Exchange rate fluctuations	-	2
Write-offs and corrections	(499)	(333)
Balance at 31 December	1,336	1,581

Deferred tax assets are stated at the following temporary differences:

Description	2021 HRK ,000	2020 HRK ,000
Deferred fees for approved loans	424	442
Unrealised securities losses	239	256
Net property adjustment	12	12
Balance at 31 December	675	710

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 approved loans, unrecognised unrealised securities losses and partially unrecognised expenses of property value adjustments.

Collected fees from approved 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 securities losses, 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	2021 HRK ,000	2020 HRK ,000
Balance at 1 January	710	1,024
Recognition of deferred tax assets	190	215
Changes in value adjustment of acquired tax assets	61	5,343
Use of deferred tax assets	(286)	(5,872)
Balance at 31 December	675	710

Changes in impairments of tax assets are shown below:

Description	2021 HRK ,000	2020 HRK ,000
Balance at 1 January	(3,912)	(9,255)
New impairment	(105)	(111)
Impairment reduction	166	5,454
Balance at 31 December	(3,851)	(3,912)

29. Liabilities to banks

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Demand deposits		
- HRK	18	1
- foreign currency	-	-
Total demand deposits	18	1

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

30. Demand deposits

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Demand deposits – individuals		
- HRK	652,167	541,386
- foreign currency	436,603	354,970
Total individuals	1,088,770	896,356
Demand deposits - corporates		
- HRK	302,481	211,447
- foreign currency	375,693	146,557
Total corporates	678,174	358,004
Demand deposits – financial institutions		
- HRK	478	1,167
- foreign currency	-	-
Total financial institutions	478	1,167
Demand deposits – Government and other institutions		
- HRK	169,743	149,917
- foreign currency	1,800	831
Total Government and other institutions	171,543	150,748
Restricted deposits		
- HRK	3,678	4,433
- foreign currency	6,778	5,642
Total restricted deposits	10,456	10,075
Deposits – foreign persons		
- HRK	5,915	4,124
- foreign currency	10,819	22,755
Total foreign persons	16,734	26,879
Total demand deposits	1,966,155	1,443,229

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

31. Terms deposits

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Deposits – individuals		
- HRK	264,933	297,726
- foreign currency	584,961	606,875
Total individuals	849,894	904,601
Deposits – corporates		
- HRK	8,920	4,684
- foreign currency	1	347
Total corporates	8,921	5,031
Deposits – Government and other institutions		
- HRK	585	150
- foreign currency	1,055	1,060
Total Government and other institutions	1,640	1,210
Deposits – foreign persons		
- HRK	1,169	727
- foreign currency	12,089	12,359
Total foreign persons	13,258	13,086
Total term deposits	873,713	923,928

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

32. Loan liabilities

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Domestic banks	1,660	2,072
Total loan liabilities	1,660	2,072

Liability toward HBOR amounted to HRK 1,660 thousand as at 31 December 2021 (2020: HRK 2,072 thousand). These funds are intended for granting loans to individuals in accordance with HBOR programs for repairing war damages with an average interest rate of 0% (2020: 2.0%).

33. Other liabilities

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Fees and commissions payables	132	99
Employee payables	1,939	2,205
Taxes and contributions	353	80
Liabilities to suppliers	898	815
Liabilities for loan subscriptions	3,702	3,478
Accrued loan interests and receivables discount	1,705	2,006
Operating lease liabilities	418	465
Premium for deposit insurance	-	1,204
Liabilities for POS terminals transactions	257	225
Orders sent to NCS (National Clearing System-NKS)	1,242	957
Liabilities for public housing	60	104
Collected deferred income	678	514
Liabilities for tax and surtax on savings interest	30	98
Bearer savings	113	113
Other liabilities	701	535
Total other liabilities	12,228	12,898

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

34. Provisions

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Provisions for employee remuneration	694	706
Provisions for court disputes	-	124
Provisions for identified losses on off-balance sheet contingent liabilities	167	277
Expected losses from contingent liabilities	4,481	2,623
Total provisions	5,342	3,730

/i/ Changes in provisions are shown below:

Description	2021 HRK ,000	2020 HRK ,000
Balance at 1 January	3,730	8,425
Increase in provisions for court disputes and employee remuneration (note 14)	5,832	175
Decrease in and utilisation of provisions for court disputes and employee remuneration (note 14)	(5,969)	(4,010)
Changes in provisions for contingent liabilities and commitments (note 14)	1,749	(860)
Balance at 31 December	5,342	3,730

ii/ As at 31 December 2021 the Bank was actively engaged in 46 court proceedings against corporates and 34 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 29 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.

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

34. Provisions – continued

In procedures for payment in 2021 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 the Supreme Court judgement. At the beginning of 2021 the plaintiff filed a constitutional complaint against the Supreme Court's decision in early 2021 which was dismissed.

In the second proceeding, a first-instance judgment was rendered in favour of the Bank against which the plaintiff appealed to the High Commercial Court. The High Commercial Court reversed the judgment of the Commercial Court in Zagreb by accepting the claim in full, based on which the Bank paid the total amount of the lawsuit to the plaintiff and at the same time submitted a proposal to the Supreme Court to allow a review. It is not possible to assess the time or manner in which the Supreme Court will decide on this proposal.

In the payment proceedings, the High Commercial Court rejected the Bank's appeal and upheld the judgment of the Commercial Court in Rijeka thus ordering the Bank to pay the entire claim. The Bank effected the payment in full according to the final judgment and filed a motion with the Supreme Court for permission to review.

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 in part 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, being the 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.

34. Provisions – continued

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 this motion 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.

3. Also, after the General Assembly of the Bank passed a decision in December 2020 to withdraw shares from the Zagreb Stock Exchange d.d., a group of small shareholders filed a lawsuit to determine the nullity of the decision. The Commercial Court in Zagreb issued a non-final verdict rejecting the claim to which the plaintiffs filed an appeal. The case is pending before the High Commercial Court in Zagreb and it is not possible to estimate in what time frame and in what way will the High Commercial Court decide on the appeal.

35. Hybrid instruments

Hybrid instruments are special instruments of capital investment, deposits without the possibility of payment before the expiry of the contractual period, except for entry into the equity or due to 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 10,379 thousand as at 31 December 2021 (2020: HRK 53,837 thousand). The balance included 2 hybrid instruments that mature in May 2023. Instruments are subject to linear depreciation and their non-depreciated value is included in the calculation of regulatory capital: HRK 2,882 thousand as at 31 December 2021 (2020: HRK 9,977 thousand).

36. Share capital

As at 31 December 2021 the Bank's share capital 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.

In accordance with the Decision of the Bank's General Assembly dated 14 December 2020, the shares of Karlovačka banka d.d. are no longer listed on the Zagreb Stock Exchange.

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

Regulatory capital

The regulatory capital of the Bank and the capital adequacy rate for 2021 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, 120/2018 and 96/2021). The said Decision is in conformity with the provisions of the Regulation no. 2018/1624 and Implementing Regulation of the EU Commission no. 2021/451. As at 31 December 2021 the regulatory capital of the Bank amounted to HRK 233,552 thousand (2020: HRK 215,173 thousand) while the capital adequacy rate amounted to 22.19% (2020: 20.55%) in relation to the prescribed minimum rate of 12%.

Description	2021 HRK ,000	2020 HRK ,000
Regulatory capital		
<i>Share capital</i>	230,670	205,196
<i>Regular share capital</i>	230,670	205,196
Issued stock capital	175,436	175,436
Retained profit (excluding profit for the year)	28,393	-
Net profit/(loss) for the year	25,017	29,502
Other reserves	1,851	376
<i>Deductions in line with CNB regulations</i>		
Intangible assets	(15)	(105)
Impairment of CET1 due to prudential filters	(12)	(13)
Total regular share capital	230,670	205,196
Additional share capital	0	0
Share capital	230,670	205,196
Supplementary capital	2,882	9,977
Total regulatory capital	233,552	215,173
Total amount of risk exposure	1,052,359	1,047,180
Capital adequacy rate	22.19%	20.55%

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

37. Contingent liabilities and commitments

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Performance guarantees		
- HRK	36,111	32,851
- foreign currency	1,805	764
Payment guarantees		
- HRK	3,617	4,526
- foreign currency	4,954	5,351
Letters of credit		
- foreign currency	-	-
Granted unused overdrafts	303,335	283,926
Other	9,679	2,070
Total contingent liabilities and commitments	359,501	329,488
Provisions for contingent liabilities and commitments	(4,647)	(2,899)
Total net contingent liabilities and commitments	354,854	326,589

38. Cash and cash equivalents

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Cash	908,311	663,658
Placements with banks with remaining maturity of up to 3 months	98,156	15,207
Total cash and cash equivalents	1,006,467	678,865

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	2021 HRK ,000	2020 HRK ,000
Total sources	5,750	5,767
Less: assets	(5,750)	(5,767)
Unused funds	-	-

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 member of the management board or the supervisory board or the procurator,
- 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 the other person or 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 who are 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 the 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 2021 are shown below:

	2021 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	1,765	1,269	620,348	4
Supervisory Board	8	128	3,186	51
Management Board	3	77	488	95
Other key persons with related parties	290	183	1,981	143
Legal entities in which the Bank has participating interest	27,463	-	-	-
Member of the Management Board of a Subsidiary	211	-	3	17
TOTAL	29,740	1,657	626,006	310

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NOTES TO THE FINANCIAL STATEMENTS - continued
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/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
TOTAL	30,925	2,084	381,209	364

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

/iii/Income and expenses with related persons for 2021 and 2020 are shown below:

<i>Description</i>	2021	2020
	HRK ,000	HRK ,000
<i>Income</i>		
Shareholders with over 5% of ordinary shares and their related parties	11,667	7,297
Members of the Management Board and their related persons	5	6
Members of the Supervisory Board and their related persons	15	17
Other key persons with related parties	26	31
Legal entities in which the Bank has participating interest	-	-
Member of the Management Board of a Subsidiary	9	38
Total income	11,722	7,389
<i>Expenses</i>		
Shareholders with over 5% of ordinary shares and their related parties	1,642	3,098
Members of the Management Board and their related persons	1,089	1,156
Members of the Supervisory Board and their related persons	611	624
Other key persons with related parties	1,756	1,906
Legal entities in which the Bank has participating interest	4	6
Member of the Management Board of a Subsidiary	210	422
Total expenses	5,312	7,212

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 officer, 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.

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Management Board		
Net salaries	602	609
Taxes and contributions	472	531
Total:	1,074	1,140
Other key personnel		
Net salaries	1,142	1,052
Taxes and contributions	763	793
Total:	1,905	1,845
Total	2,979	2,985

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 for a financial instrument is fixed indicates the exposure 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.

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NOTES TO THE FINANCIAL STATEMENTS - continued
For the year ended 31 December 2021

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

41. Interest risk - continued

2021	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
ASSETS							
Cash	-	-	-	-	-	908,311	908,311
Receivables from CNB	-	-	155,833	-	-	-	155,833
Placements with banks	33,882	68,064	306	-	-	-	102,252
Financial assets through other comprehensive income	-	-	-	-	-	149	149
Financial assets at depreciated cost	24,075	52,090	276,083	136,679	186,352	-	675,279
Financial assets valued at fair value	-	-	-	-	-	10,811	10,811
Loans and advances to customers	287,257	441,778	144,435	151,612	149,380	-	1,174,462
Investments in subsidiary	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	21,819	21,819
Intangible assets	-	-	-	-	-	15	15
Foreclosed assets and real estate investments	-	-	-	-	-	25,674	25,674
Other assets	-	-	-	-	-	26,829	26,829
Total assets	345,214	561,932	576,657	288,291	335,732	993,608	3,101,434
LIABILITIES							
Due to banks	-	-	-	-	-	18	18
Demand deposits	496	-	1,965,659	-	-	-	1,966,155
Term deposits	104,871	175,427	490,912	92,121	10,382	-	873,713
Hybrid instruments	-	-	10,379	-	-	-	10,379
Liabilities on loans received	-	98	294	781	487	-	1,660
Other liabilities	-	-	-	-	-	12,228	12,228
Provisions	-	-	-	-	-	5,342	5,342
Other liabilities	105,367	175,525	2,467,244	92,902	10,869	17,588	2,869,495
CAPITAL							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	1,851	1,851
Profit for the year	-	-	-	-	-	25,017	25,017
Retained profit /(loss)	-	-	-	-	-	28,393	28,393
Total capital	-	-	-	-	-	231,939	231,939
Total liabilities and capital	105,367	175,525	2,467,244	92,902	10,869	249,527	3,101,434
Net assets/liabilities and capital	239,847	386,407	(1,890,587)	195,389	324,863	744,081	0

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NOTES TO THE FINANCIAL STATEMENTS - continued
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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 ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
ASSETS							
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	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	-	-	-	-	-	11,315	11,315
Total assets	478,394	434,638	357,216	258,842	391,195	725,966	2,646,251
LIABILITIES							
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 on loans received	-	114	294	784	880	-	2,072
Other liabilities	-	-	-	-	-	12,898	12,898
Provisions	-	-	-	-	-	3,730	3,730
Total liabilities	103,257	177,956	1,998,597	132,611	10,646	16,628	2,439,695
CAPITAL							
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)	-	-	-	-	-	-	-
Total capital	-	-	-	-	-	206,556	206,556
Total liabilities and capital	103,257	177,956	1,998,597	132,611	10,646	223,184	2,646,251
Net assets/liabilities and capital	375,137	256,682	(1,641,381)	126,231	380,549	502,782	-

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

41. Interest risk - continued

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

	2021	2020
	%	%
Assets		
Receivables from CNB	-0.7-0	-0.7-0
Placements with banks	-0.6-0.25	-0.5-0.12
Financial assets through other comprehensive income	-	-
Financial assets at depreciated cost	-0.06-6.5	-0.06-5.875
Loans and advances to customers	1.6-8.70	1.6-11.00
Liabilities		
Due to banks (HBOR)	0.00	1.00-3.00
Demand deposits	0.00-01	0.00-01
Term deposits	0.00-2.85	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 concerned. 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

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

	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	TOTAL
2021	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000	HRK ,000
ASSETS						
Cash	908,311	-	-	-	-	908,311
Receivables from CNB	155,833	-	-	-	-	155,833
Placements with banks	33,882	68,064	306	-	-	102,252
Financial assets through other comprehensive income	-	-	-	-	149	149
Financial assets at depreciated cost	24,075	52,090	276,083	136,679	186,352	675,279
Financial assets at fair value through income statement and not actively traded with (FOB and FOP)	10,811	-	-	-	-	10,811
Loans and advances to customers	287,257	441,778	144,435	151,612	149,380	1,174,462
Investments in subsidiary	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	21,819	21,819
Intangible assets	-	-	-	-	15	15
Foreclosed assets and real estate investments	-	-	-	-	25,674	25,674
Other assets	26,829	-	-	-	-	26,829
Total assets	1,446,998	561,932	420,824	288,291	383,389	3,101,434
LIABILITIES						
Due to banks	18	-	-	-	-	18
Demand deposits	1,966,155	-	-	-	-	1,966,155
Term deposits	104,721	175,454	489,883	92,784	10,871	873,713
Hybrid instruments	-	-	10,379	-	-	10,379
Liabilities on loans received	-	-	-	-	1,660	1,660
Other liabilities	12,225	-	-	3	-	12,228
Provisions	4,551	42	731	2	16	5,342
Total liabilities	2,087,670	175,496	500,993	92,789	12,547	2,869,495
CAPITAL						
Share capital	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-
Reserves	-	-	-	-	1,851	1,851
Profit for the year	-	-	25,017	-	-	25,017
Retained profit/(loss)	-	-	-	-	28,393	28,393
Total capital	-	-	25,017	-	206,922	231,939
Total liabilities and capital	2,087,670	175,496	526,010	92,789	219,469	3,101,434
Net assets/liabilities and capital	(640,672)	386,436	(105,186)	195,502	163,920	-

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
For the year ended 31 December 2021

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

44. Liquidity risk - continued

The remaining maturity of the Bank's assets and liabilities as at 31 December 2020 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
ASSETS						
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 and not actively traded with (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
Total assets	1,286,379	442,559	227,553	247,572	442,188	2,646,251
LIABILITIES						
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 on 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
Total liabilities	1,560,664	178,419	556,759	133,620	10,233	2,439,695
CAPITAL						
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)	-	-	-	-	-	-
Total capital	-	-	29,502	-	177,054	206,556
Total liabilities and capital	1,560,664	178,419	586,261	133,620	187,287	2,646,251
Net assets/liabilities and capital	(274,285)	264,140	(358,708)	113,952	254,901	-

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 accepted risk that it expects to incur in relation to a single borrower or groups of borrowers and to industry segments. Risks are monitored regularly by the Bank and are subject to an annual or more frequent review.

The 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 customers as required. Guarantees, being 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 approved 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 shown below:

	31 Dec 2021	31 Dec 2020
	HRK ,000	HRK ,000
Current accounts with CNB and other banks	857,915	614,296
Receivables from CNB	155,833	141,385
Placements with banks	102,252	19,314
Financial assets through other comprehensive income	149	150
Financial assets at depreciated cost	675,279	561,537
Financial assets at fair value through income statement	10,811	11,447
Loans and advances to customers	1,174,462	1,186,602
Other assets	26,829	11,315
Total	3,003,530	2,546,046

Exposure to credit risk related to off-balance sheet records is shown below:

	31 Dec 2021	31 Dec 2020
	HRK ,000	HRK ,000
Guarantees	46,487	43,492
Unused placements and other	313,014	285,996
Total	359,501	329,488
Reserves	(4,647)	(2,899)
Total off-balance	354,854	326,589
Total exposure to credit risk	3,358,384	2,872,635

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 2021 and 31 December 2020, 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.

34.97% (2020: 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 9.32% (2020: 9.95%) 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:

- 90.37% (2020: 88.8%) of loans and receivables from clients are classified in the risk category A,
- 89% (2020: 87%) of gross loans and receivables from clients are loans that are not yet due and not impaired,
- 9.63% (2020: 11.2%) of gross loans and receivables from clients are classified as impaired loans.

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

Impairment

Classification	31 December 2021		31 December 2020	
	HRK ,000		HRK ,000	
	Loans and receivables from customers	Impairment provisions	Loans and receivables from customers	Impairment provisions
A	1,139,376	16,583	1,151,518	14,684
B1	36,052	5,914	26,450	6,214
B2	19,132	7,537	27,658	12,116
B3	46,945	37,009	69,725	55,735
C	20,786	20,786	21,232	21,232
Total	1,262,291	87,829	1,296,583	109,981

- 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 6.99% (2020: 8.53%),
- Decrease in provisions during 2021 was a result of the collection of risk placements and reallocation of part of the risk category B3 and 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 secured by mortgages on residential property. Also, a significant part of corporate portfolio is secured by 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 taken place. 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 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Unmatured and unimpaired	1,125,829	1,133,982
Matured and unimpaired	13,547	10,437
Impaired loans	122,915	152,164
Gross total	1,262,291	1,296,583
Provisions for impairment	(87,829)	(109,981)
Net amount	1,174,462	1,186,602

Total provisions of the Bank for impairment of loans and receivables from customers amounted to HRK 87,829 thousand (2020: HRK 109,981 thousand), out of which the amount of HRK 71,246 thousand (2020: HRK 95,297 thousand) related to specific provisions for impairment while the remaining amount of HRK 16,583 thousand related to general provision (2020: HRK 14,684 thousand).

a) *Unmatured and unimpaired loans and receivables from customers*

Unmatured and unimpaired 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) Matured and unimpaired loans and receivables from customers

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

Description	31 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Due within 30 days	11,241	8,350
Due in 31-60 days	1,461	1,357
Due in 61-90 days	845	730
TOTAL	13,547	10,437

It is not practical to show estimated collateral values.

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 Dec 2021 HRK ,000	31 Dec 2020 HRK ,000
Gross impaired loans	122,915	152,164
Impairment	(71,246)	(95,297)
Net impaired loans	51,669	56,867

It is not practical to show estimated collateral values.

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

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
For the year ended 31 December 2021

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 2021 are shown below:

2021	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
ASSETS							
Cash	161,110	47,421	20,376	-	228,907	679,404	908,311
Receivables from CNB	-	-	-	-	-	155,833	155,833
Placements with banks	4,096	90,884	7,272	-	102,252	-	102,252
Financial assets through other	-	-	-	-	-	149	149
Financial assets at depreciated cost	137,804	21,828	-	193,212	352,844	322,435	675,279
Financial assets at fair value through income statement	10,738	-	-	-	10,738	73	10,811
Loans and advances	4,174	-	-	719,102	723,276	451,186	1,174,462
Investments into associate	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	21,819	21,819
Intangible assets	-	-	-	-	-	15	15
Foreclosed assets and real estate investments	-	-	-	-	-	25,674	25,674
Other assets	1,341	-	-	3,488	4,829	22,000	26,829
Total assets	319,263	160,133	27,648	915,802	1,422,846	1,678,588	3,101,434
LIABILITIES							
Due to banks	-	-	-	-	-	18	18
Demand deposits	665,296	144,706	21,692	-	831,694	1,134,461	1,966,155
Term deposits	576,077	15,961	6,068	-	598,106	275,607	873,713
Hybrid instruments	-	-	-	-	-	10,379	10,379
Loan liabilities	-	-	-	1,660	1,660	-	1,660
Other liabilities	2,935	-	-	-	2,935	9,293	12,228
Provisions	-	-	-	-	-	5,342	5,342
Total liabilities	1,244,308	160,667	27,760	1,660	1,434,395	1,435,100	2,869,495
CAPITAL							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	25,017	25,017
Reserves	-	-	-	-	-	1,851	1,851
Retained profit / (loss)	-	-	-	-	-	28,393	28,393
Total capital	-	-	-	-	-	231,939	231,939
Total liabilities and capital	1,244,308	160,667	27,760	1,660	1,434,395	1,667,039	3,101,434
Net assets/liabilities and capital	(925,045)	(534)	(112)	914,142	(11,549)	11,549	-

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
For the year ended 31 December 2021

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

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

2020	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 '000	HRK ,000	HRK ,00 0	HRK '000
ASSETS							
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 comprehensive income	-	-	-	-	-	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 AND FOP)	11,351	-	-	-	11,351	96	11,447
Loans and advances	7,228	-	-	748,954	756,182	430,420	1,186,602
Investments into associate	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	24,999	24,999
Intangible assets	-	-	-	-	-	105	105
Foreclosed assets and assets held for sale	-	-	-	-	-	25,739	25,739
Other assets	1,018	-	-	1,357	2,375	8,940	11,315
Total assets	304,939	37,697	27,952	804,753	1,175,341	1,470,910	2,646,251
LIABILITIES							
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	-	-	-	2,709	10,189	12,898
Provisions	-	-	-	-	-	3,730	3,730
Total liabilities	1,087,081	37,584	27,415	5,073	1,157,153	1,282,542	2,439,695
CAPITAL							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	29,502	29,502
Reserves	-	-	-	-	-	376	376
Retained profit / (loss)	-	-	-	-	-	-	-
Total capital	-	-	-	-	-	206,556	206,556
Total liabilities and capital	1,087,081	37,584	27,415	5,073	1,157,153	1,489,098	2,646,251
Net assets/liabilities and capital	(782,142)	113	537	799,680	18,188	(18,188)	-

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

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 provide for 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 included through the liquidity risk testing and also in case of announced potential changes in regulations to the extent that they directly or indirectly affect 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 its capital to the changes in interest rates.

Interest rate risk management policy is adopted and implemented by the Bank for protection and to 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 the 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 applies the so-called 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 achieved 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, doing so 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, aiming to reduce possible changes in annual net interest income to a maximum level of 10%.
Maximum change 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

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

46.3. Securities price risk - continued

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

- 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 is managed through:

- Defined target structure of investment portfolios of which the bulk 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 2021.

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 which are defined for the purpose of mitigating or avoiding 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. Besides the definition of the risk and its categories, the Bank also determined 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 this risk, the Bank covers events that occurred and resulted in operating losses as well as 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 value 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 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 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 December 2021	31 December 2020		
1) Listed shares in investment funds (note 23)	<i>Listed securities</i> – shares in investment funds – HRK 10,738 thousand (book value = HRK 11,276 thousand)	<i>Listed securities</i> – shares in investment funds – HRK 11,270 thousand (book value = HRK 11,305 thousand)	Level 1	Market price model – published share price on the day of the valuation
2) Unlisted bonds (note 23)		<i>Other bonds of Fortenova Group</i> - HRK 64 thousand	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 December 2021	31 December 2020		
3) Shares in joint-stock companies (note 23)	<i>Listed securities 0.293 % of shares of Varteks dd – HRK 73 thousand (book value = HRK 120 thousand)</i>	<i>Listed securities 0.293 % of shares of Varteks dd – HRK 96 thousand (book value = HRK 120 thousand)</i>	Level 1	Fair value estimation model – market price model
4) Shares in joint-stock companies (note 23)	<i>Listed shares of Vis d.d. – HRK 0.00 kn (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 4	Market price model – no trading for longer
5) Shares in joint-stock companies (note 23)		<i>Certificates of ownership in Fortenova Group (0.0037% of ownership) HRK 16 thousand</i>	Level 5	Book value at cost of acquisition
6) 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
7) 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 0.08 % of shares of SKDD d.d. – HRK 8 thousand</i>	Level 3	Book value at cost of acquisition
8) Shares in joint-stock companies (note 21)		<i>Unlisted shares 4.555% of shares of Tržište novca d.d. – 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:

Level 1 of available indicators – fair value indicators are derived from (uncoordinated) quoted market prices for identical assets and liabilities

Level 2 of available indicators – fair value indicators are derived from inputs other than quoted prices from level 1 and relate to the observed asset or liability (their prices) or indirectly (derived from prices) and

Level 3 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
2021				
Financial assets through other comprehensive income	-	-	149	149
Financial assets required at fair value through income statement	10,811	-	-	10,811
Financial assets at fair value through income statement	-	-	-	-
2020				
Financial assets through other comprehensive income	-	-	150	150
Financial assets required at fair value through income statement	11,367	-	80	11,447

49. Auditors' fee

Auditors' fee for the audit of the Bank's annual financial statements in 2021 amounted to HRK 205 thousand plus VAT (2020: HRK 205 thousand plus VAT). Services included: audit of annual financial statements, audit for CNB and audit of the IT system.

50. Subsequent events

Following the Balance sheet date there were no events that could have had material impact to the annual financial statements of the Bank for 2021 and that should have been published accordingly.

51. Approval of the financial statements

The financial statements were adopted by the Management Board and approved for publication on 18 February 2022.



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 and 119/2021) are shown below:

- Income statement for 2021
- Statement of other comprehensive income for 2021
- Balance Sheet as at 31 December 2021
- Cash flow statement for 2021
- Statement of changes in equity for 2021

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 2021

Description	2021	2020
	HRK ,000	HRK ,000
Interest income	53,951	56,247
(Interest expenses)	(3,430)	(5,696)
Income from fees and commissions	25,696	22,922
(Fees and commissions expenses)	(7,220)	(6,608)
Profit/(loss) upon derecognition of financial assets and liabilities that are not valued at fair value through income statement	272	(4)
Net Profit/(loss) from financial assets and liabilities held for trading	14,846	10,441
Net Profit/(loss) from financial assets that are not traded with and that are required at fair value through income statement	-	(10)
Net Profit/(loss) from financial assets and liabilities at fair value through income statement	(528)	(728)
Net exchange rate differences (profit or (-) loss)	(180)	(261)
Other operating income	324	438
(Other operating expenses)	(150)	(134)
Total operating income (net)	<u>83,581</u>	<u>76,607</u>
(Administrative expenses)	(41,410)	(41,160)
(Contributions in cash to resolution committees and deposit insurance systems)	(16)	(4,791)
(Depreciation)	(3,938)	(4,354)
(Provisions or (-) termination of provisions)	(1,624)	4,710
(Impairment or (-) termination of impairment of financial assets that are not valued at fair value through income statement)	(3,281)	(10,385)
(Impairment or (-) termination of impairment of non-financial assets)	(972)	(688)
(Real estate investments)	(28)	-
(Other)	(944)	(688)
Profit or (loss) before tax from continuing operations	32,340	19,939
Tax expense or (-) income from continuing operations	(2,199)	(369)
Profit or (-) loss after tax from continuing operations	<u>30,141</u>	<u>19,570</u>
Profit or (-) loss before tax from discontinued operations	(5,124)	9,959
Tax expense or (-) income related to discontinued operations	-	(27)
Profit or (-) loss after tax from discontinued operations	<u>(5,124)</u>	<u>9,932</u>
Profit or (-) loss for the year	<u>25,017</u>	<u>29,502</u>
Attributable to minority interest (non-controlling interest)	-	-
Attributable to equity holders	<u>25,017</u>	<u>29,502</u>

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

Description	2021	2020
	HRK ,000	HRK ,000
Profit or (-) loss for the year	25,017	29,502
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 accounted for using the equity method	-	-
Charges in fair value of equity instruments valued at fair value through other comprehensive income	-	-
Net profit or (-)loss 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 equity instruments valued at fair value through other comprehensive income (protection instrument)	-	-
Changes in fair value of financial liabilities valued at fair value through income statement that are attributable 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	25,017	29,502
Attributable to minority interest (non-controlling interest)	-	-
Attributable to equity holders	25,017	29,502

Appendix A - Other legal and regulatory requirements

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

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2021

Description	31 Dec 2021	31 Dec 2020
	HRK ,000	HRK ,000
ASSETS		
Cash, receivables and liabilities from central banks and other demand deposits	908,311	663,658
Cash in hand	50,396	49,362
Cash receivables and liabilities from central banks	680,889	462,478
Other demand deposits	177,026	151,818
Financial assets held for trading	-	-
Financial assets that are not traded with and that are required at fair value through income statement	10,811	11,447
Equity instruments	10,811	11,383
Debt securities	-	64
Financial assets at fair value through income statement	-	-
Financial assets at fair value through othe comprehensive income	149	150
Equity instruments	149	150
Financial assets at depreciated cost	2,133,517	1,917,843
Debt securities	675,279	561,537
Loans and advances	1,458,238	1,356,306
Investments into subsidiaries, joint ventures and associates	-	-
Tangible assets	31,000	24,999
Property, plant and equipment	21,819	24,999
Real estate investments	9,181	-
Intangible assets	15	105
Other intangible assets	15	-
Tax assets	684	1,808
Other assets	454	502
Fixed assets and disposal groups intended for sale	16,493	25,739
Total assets	3,101,434	2,646,251
LIABILITIES		
Financial liabilities held for trading	-	-
Financial liabilities at fair value through income statement	-	-
Financial liabilities at depreciation cost	2,852,353	2,423,632
Deposits	2,851,803	2,423,068
Other financial liabilities	550	564
Provisions	5,342	3,730
Tax liabilities	421	148
Other liabilities	11,379	12,185
Total liabilities	2,869,495	2,439,695
EQUITY INSTRUMENTS		
Capital	176,678	176,678
Retained profit	28,393	-
Revaluation reserves	-	-
Other reserves	1,851	376
(-) Treasury bills	-	-
Profit or loss attributable to equity holders	25,017	29,502
Total equity instruments	231,939	206,556
Total equity instruments and total liabilities	3,101,434	2,646,251

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

CASH FLOW STATEMENT FOR 2021

Description	On the reporting date of the current period HRK ,000	Same period last year HRK ,000
1	3	4
Business activities according to the direct method		
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)	-	-
Business activities according to the indirect method		
Profit/(loss) before tax	27,216	29,898
Adjustments:		
Impairments and provisions	5,864	6,361
Depreciation	3,938	4,354
Net unrealised (profit)/loss from financial assets and liabilities at fair value through income statement	528	(718)
(Profit)/loss from sale of tangible asseets	-	-
Other non-cash items	-	-
Changes in assets and liabilities from operations		
Deposits with CNB	(14,451)	21,921
Deposits with and loans to financial institutions	(267)	8,597
Loans and advances to other customers	(3,493)	(92,088)
Securities and other financial instruments at fair value through other comprehensive income	1	-
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments that are not actively traded with and are valued at fair value through income statement	-	192,798
Securities and other financial instruments required at fair value through income statement	108	23,768
Securities and other financial instruments at depreciated cost	(114,210)	(262,564)
Other assets from operating activities	(15,767)	(3,657)
Deposits from financial institutions	17	(172)

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

**CASH FLOW STATEMENT FOR 2021
- 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	446,478	180,992
Savings deposits of other customers	76,573	139,318
Term deposits of other customers	(49,038)	(96,209)
Derivative financial liabilities and other liabilities held for trading	-	-
Other liabilities from operating activities	(326)	(2,982)
Interest collected from operating activities [indirect method]	13,012	12,855
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	(1,303)	(3,190)
(Income tax paid)	(2,199)	(396)
Net cash flow from operating activities	372,681	158,886
Investment activities		
Receipts from sales / (payments) for the purchase of tangible and intangible assets	(1,575)	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
Net cash flow from investment activities	(1,575)	38,768
Financial activities		
Net increase/(decrease) in received loans from financial activities	(412)	(1,653)
Net increase /(decrease) in issued debt securities	-	-
Net increase /(decrease) in supplementary capital instruments	(43,458)	37
Increase in share capital	-	-
(Dividend paid)	-	-
Other receipts/(payments) from financial activities	366	-

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

**CASH FLOW STATEMENT FOR 2021
- continued**

Naziv pozicije	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	(43,504)	(1,616)
Net increase/(decrease) in cash and cash equivalents	327,602	196,038
Cash and cash equivalents at the beginning of the year	678,865	482,827
Effects of changes in foreign exchange rates on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	1,006,467	678,865

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 2021															
No.	Sources of changes in capital											Minority share		Total	
		Capital	Share premium	Issued equity instruments other than equity	Other equity items	Accumulated other comprehensive income	Retained profit	Revalutaion 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	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	Opening balance [before adjustment]	176,678	-	-	-	-	-	-	376	-	29,502	-	-	-	206,556
2.	Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	Opening balance [current year]	176,678	-	-	-	-	-	-	-	-	29,502	-	-	-	206,556
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 2021

		Sources of changes in capital	Manority share												Total	
			Capital	Share premium	Issued equity instruments other than equity	Other equity items	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
	No.		3	4	5	6	7	8	9	10	11	12	13	14	15	16
9.		1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.		Conversion of receivables into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.		Reduction of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.		Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.		Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.		Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.		Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.		Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17.		Transfers between components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 2021

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	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
17.	Increase or (–) decrease in equity from business mergers														
18.	Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease in equity	-	-	-	-	-	28,393	-	1,475	-	(29,502)	-	-	-	366
20.	Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	25,017	-	-	-	25,017
21.	Closing balance (current year)	176,678	-	-	-	-	28,393	-	1,851	-	25,017	-	-	-	231,939

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 2021

Description	CNB Decision 2021	Basic financial statements 2021	Difference	Explanatory note
	HRK ,000	HRK ,000	HRK ,000	
Interest income	53,951	53,970	(19)	1
(Interest expenses)	(3,430)	(3,430)	-	
Income from fees and commissions	25,696	25,696	-	
(Fees and commissions expenses)	(7,220)	(7,220)		
Profit/(loss) on derecognition of financial assets and liabilities that are not valued at fair value through income statement	272	-	272	2
Profit/(loss) on financial assets and liabilities held for trading, net	14,846	-	14,846	2
Profit/(loss) on financial assets that are not traded with and that are valued at fair value through income statement, net	(528)	-	(528)	2
Profit/(loss) on financial assets and liabilities at fair value through income statement, net	-	-	-	2
Profit from financial operations		14,590	(14,590)	2
Profit/(loss) from accrued exchange rate differences	(180)	(199)	19	1
Other operating income	324	1,410	(1,086)	3
(Other operating expenses)	(150)	-	(150)	3
Total operating income (net)	83,581			
General administrative and other operating expenses		(51,737)	51,737	3
(Impairment and provision costs)		(5,864)	5,864	4
(Administrative expenses)	(41,410)		(41,410)	3
(Contributions in cash to resolution committees and deposit insurance systems)	(16)		(16)	3
(Depreciation)	(3,938)		(3,938)	3
(Provisions or (-) termination of provisions)	(1,624)		(1,624)	4
(Impairment or (-) termination of impairment of financial assets that are not valued at fair value through income statement)	(3,281)		(3,281)	4
(Impairment or (-) termination of impairment of non-financial assets)	(972)		(972)	4
Profit/(loss) before tax from continuing operations	32,340	27,216		
Tax expense from continuing operations	(2,199)	(2,199)	-	
Profit/(loss) after tax from continuing operations	30,141	25,017		
Profit or (-) loss before tax from discontinued operations	(5,124)	-	(5,124)	3
(Tax expenses) related to discontinued operations	-	-	-	
Profit/(loss) after tax from discontinued operations	(5,124)			
Profit/(loss) for the year	25,017	25,017		

A) RECONCILIATION OF THE INCOME STATEMENT FOR 2021 – 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 19 thousand in 2021 but this effect is reported in the Basic financial statements under Profit/(loss) from accrued foreign exchange differences.
2. In the report in accordance with the CNB'S Decision, Profit/(loss) from financial assets in the amount of HRK 14,590 thousand is presented in several items, depending on the portfolio while in the Basic financial statements the net financial operations effect is presented in one item in total – *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 51,737 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 41,410 thousand, *Contributions in cash to insurance systems* in the amount of HRK 16 thousand, *Depreciation* in the amount of HRK 3,938 thousand, *Other expenses* in the amount of HRK 150 thousand and *Net loss from discontinued operations* in the amount of HRK 5,124 thousand. Net loss from discontinued operations in the amount of HRK 5,124 thousand includes expenses in the amount of HRK 6,209 thousand and income in the amount of HRK 1,085 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 5,877 thousand. In the Basic financial statements *Impairment and provision costs* amount to HRK 5,864 thousand. The difference of HRK 13 thousand relates to the net effect of the provision for employees which are included within *Administrative expenses (net HRK 11 thousand)* 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 2 thousand).

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

B) RECONCILIATION OF THE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR 2021

Description	CNB Decision 2021 HRK ,000	Basic financial statements 2021 HRK ,000	Difference
Profit or (-) loss for the year	25,017	25,017	-
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 that is calculated using the equity method	-	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income	-	366	(366)
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	25,017	25,383	(366)

In the Statement of comprehensive income, the differences refer to realised changes in fair value of financial instruments valued through other comprehensive income, and the effect of which was transferred to retained profit during the year in accordance with the decision of the General Assembly.

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

**C) RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION –
BALANCE SHEET AS AT 31 DECEMBER 2021**

Item	CNB Decision HRK ,000	Basic financial statements HRK ,000	Difference HRK ,000	Explanat ory note
ASSETS				
Cash, receivables from central banks and other demand deposits	908,311			
<i>Cash</i>		908,311	(908,311)	1
Cash in hand	50,396		50,396	1
Cash receivables from central banks	680,889		680,889	1
Other demand deposits	177,026		177,026	1
Receivables from CNB		155,833	(155,833)	2
Placements with banks		102,252	(102,252)	2
Financial assets held for trading		-		
Financial assets that are not traded with and that are valued at fair value through income statement	10,811	10,811	-	
Equity instruments	10,811	10,811	-	
Debt securities	-	-	-	
Financial assets at fair value through income statement		-	-	
Financial assets at fair value through other comprehensive income	149	149	-	
Equity instruments	149	149	-	
Financial assets at depreciated cost	2,133,517			
Debt securities	675,279	675,279	-	
Loans and advances	1,458,238	1,174,462	283,776	2 and 3
Investments in subsidiaries, joint ventures and associates	-	-		
Tangible assets	31,300	21,819	9,181	4
<i>Property, plant and equipment</i>	21,819	21,819	-	
<i>Real estate investments</i>	9,181	-	9,181	4
Intangible assets	15	15	-	
Tax assets	684	-	684	3
Other assets	454	26,829	(26,375)	2 and 3
Fixed assets and disposal groups classified for sale	16,493	25,674	(9,181)	4
Total assets	3,101,434	3,101,434	-	-
LIABILITIES				
Financial liabilities held for trading				
Financial liabilities at fair value through income statement				
Financial liabilities at depreciated cost				
Liabilities to banks	-	18	(18)	
Deposits	2,851,803	2,839,868	11,935	5
Loans received	-	1,660	(1,660)	5
Hybrid instruments		10,379	(10,379)	5
Other financial liabilities	550	-	550	5
Provisions	5,342	5,342	-	
Tax liabilities	421	-	421	5
Other liabilities	11,379	12,228	(849)	5
Total liabilities	2,869,495	2,869,495	-	

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

C) RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2021 - continued

Item	CNB Decision HRK ,000	Basic financial statements HRK ,000	Difference HRK ,000	Explanat ory note
CAPITAL				
Share capital	176,678	176,678	-	
Retained profit (loss)	28,393	28,393		
Revaluation reserves	-	-		
Other reserves	1,851	1,851	-	
Profit (loss) for the year	25,017	25,017	-	
Statutory and other capital reserves	-	-		
Total capital	231,939	231,939	-	
Total liabilities and capital	3,101,434	3,101,434	-	

C) RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2021 – 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. Item Tax assets in the Basic financial statements is stated under *Other assets*.
4. According to the CNB's Decision, *Real estate investments* are a separate item summarised under item Tangible assets, while in the Basic financial statements *Real estate investments* are presented under item *Foreclosed assets and real estate investments*.

LIABILITIES AND CAPITAL

5. 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. 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 2021

	CNB Decision	Basic financial statements	Difference
Item	HRK ,000	HRK ,000	HRK ,000
Business activities according to the direct method			
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)	-	-	
Business activities according to the indirect method			
Profit/(loss) before tax	27,216	27,216	-
Adjustments:			
Impairments and provisions	5,864	5,864	-
Depreciation	3,938	3,938	-
Net unrealised (profit)/loss from financial assets and liabilities at fair value through income statement	528	-	528
(Profit)/loss from the sale of tangible assets	-	-	-
Other non-cash items	-	-	-
Changes in assets and liabilities from business activities			
Deposits with CNB	(14,451)	(14,451)	-
Deposits with and loans to financial institutions	(267)	(267)	-
Loans and advances to other customers	(3,493)	9,520	(13,013)
Securities and other financial instruments at fair value through other comprehensive income	1	1	-
Securities and other financial instruments held for trading	-	-	-
Securities and other financial instruments that are not actively traded with and that are valued at fair value through income statement	-	-	-
Securities and other financial instruments required at fair value through income statement	108	636	(528)
Securities and other financial instruments at depreciated cost	(114,210)	(114,210)	-
Other assets from business activities	(15,767)	(15,767)	-
Deposits from financial institutions	17	17	-
Transaction accounts of other customers	446,478	522,926	(76,448)
Savings deposits of other customers	76,573	-	76,573
Term deposits of other customers	(49,038)	(50,215)	1,177
Derivative financial liabilities and other liabilities that are traded with	-	-	-
Other liabilities from business activities	(326)	(328)	2
Collected interest from business activities [indirect method]	13,012	-	13,012

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

D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2021 – continued

	CNB Decision	Basic financial statements	Difference
Item	HRK ,000	HRK ,000	HRK ,000
Dividends received from business activities [indirect method]	-	-	-
Interest paid from business activities [indirect method]	(1,303)	-	(1,303)
(Paid income tax)	(2,199)	(2,199)	-
Net cash flow from business activities	372,681	372,681	-
Investments			
Receipts from sale /(payments) for the purchase of tangible and intangible assets	(1,575)	(1,575)	-
Receipts from sale / (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 investments	-	-	-
Other receipts /(payments) from investments	-	-	-
Net cash flow from investments	(1,575)	(1,575)	-
Financial activities			
Net increase/(decrease) in loans received from financial activities	(412)	(412)	-
Net increase/(decrease) in issued debt securities	-	-	-
Net increase/(decrease) in supplementary capital instruments	(43,458)	(43,458)	-
Increase in share capital	-	-	-
(Dividend paid)	-	-	-
Other receipts/(payments) from financial activities	366	366	-
Net cash flow from financial activities	(43,504)	(43,504)	-
Net increase/(decrease) in cash and cash equivalents	327,602	327,602	-
Cash and cash equivalents at the beginning of the year	678,865	678,865	-
Effects of exchange rate changes on cash and cash equivalents	-	-	-
Cash and cash equivalents at the end of the year	1,006,467	1,006,467	-

D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2021 – 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 EQUITY AND CHANGES IN EQUITY FOR 2021

There are no differences in the balance of total capital and reserves in the Statement of equity and changes in equity.