KentBank d.d.

ANNUAL REPORT FOR THE YEAR 2022

This version of our annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over translation.

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MANAGEMENT BOARD REPORT

1. About the Bank

In 1998, Štedionica Brod was founded which grew into Banka Brod d.d. in 2002 with its headquarters in Slavonski Brod.

In July 2011, the Süzer Holding took over Banka Brod d.d. and the name of the Bank was changed to Kentbank (“the Bank”) and moved its headquarters to Zagreb). The Bank was repeatedly recapitalized throughout the years by the shareholderand the last increase of paid in capital was completed in 2022 in the amount of HRK 37,715 thousand amounting to total capital of HRK 390,237 thousand.

2022 was the continuation of the transformation based on the Bank’s strategy. The Bank’s focus remains on business with retail clients and small and medium-sized enterprises. During the year, in accordance with the new strategy, the bank worked on improving treasury and trading operations and defining business models, which resulted in the reclassification of assets as described in Note 15 a). The Bank operates through a business network of 16 branches and business centers in cities across the country and a network with more than 1,000 ATMs and advanced internet and mobile banking services which are constantly improving.

2. About the Süzer Group

The Süzer Group was established in Gaziantep in 1952, as a local construction and trading company. The Group grew by rapid, yet balanced expansion beginning in the 1960’s and the 1970’s in the fields of construction, tourism and foreign trade. With the liberalization of the Turkish economy starting in the 1980s the Group embarked on a new phase of expansion, becoming in due course one of the few Turkish companies whose foreign trade volume exceeds one billion dollars. Today Süzer Group represents Turkey in the international field and has partnerships with world-wide leaders in their own sectors and is one of the leading groups of Turkey with a sustainable growth mission, an innovative vision and domestic, as well as foreign investments.

The Süzer Group portfolio covers a wide range of sectors including real estate development, finance, tourism, service and energy. In Turkey, Süzer Group owns the Ritz Carlton Hotel and worldwide known Nobu Restaurant in Istanbul. Its energy interests are represented by a majority share of Bahçeşehir Gas Distribution Inc., which is the first private company dealing with natural gas distribution in Turkey. The latest projects of the Süzer Group comprise real estate development in the United States.

3. Business activities of the Bank

KentBank provides banking services based on the activities registered in the court register, comprising corporate and retail banking. In an effort to strengthen and improve its position on the market, the Bank continuously works on development of new services and products, while improving the quality of existing products and services.

At the end of 2017 the Bank opened Representative office in Istanbul with the goal to strengthen business cooperation between Turkey and Croatia. Through Turkish Desk in Zagreb and Representative office in Istanbul, KentBank enables small, medium and big companies full access to comprehensive financial solutions as well as access to the international banking products and services.

2022 was a transformation year based on the newly adopted strategy. The strategy is mainly based on focusing on affluent retail and SME clients and balancing the loan portfolio structure accordingly. The Bank also adapted business processes in accordance with the new strategy and improved treasury and trading operations. Furthermore, at the end of the year, the Bank worked on the development of a model for calculating the expected credit loss, and the effects are explained in more detail in Note 4.

4. Operations of the Bank in 2022

On 31 December 2022, the total assets of the Bank amounted to HRK 4,071 million, representing an increase of 21% compared to prior year. In the structure of assets, loans and receivables from customers represents highest share (56%), cash and deposits at CNB and banks represent share of 24%, financial assets held to maturity represent share of 16%, while other assets represent share of 4%.

Loans to customer recorded an increase of 25% compared to 2021, with loans amounting to HRK 2,277 million on 31 December 2022. The ratio between the corporate and the retail gross loans at the end of 2022 was 51% - 49% (2021: 54% - 46%).

Total deposits from customers amounted to HRK 3,265 million, representing an increase of 23% compared to 31 December 2021. The ratio between term and current deposits at the end of 2022 was 49% - 51%, while at the end of 2021 it was 59% - 41%. Deposits from customers represent 96% of total deposits and represent an increase of 24% compared to 31 December 2021. Deposits from banks and financial institutions represent an increase of 3% compared to 31 December 2021.

In the structure of the Bank's funding sources, deposits represent 80% of total sources of funds (HRK 3,265 million at 31 December 2022), while the Bank's capital represent 11% of total sources of funds (HRK 433 million at 31 December 2022).

In 2022, the Bank's share capital was increased by HRK 37,715 thousand, after which the Bank's share capital amounted to HRK 390,237 thousand.

MANAGEMENT BOARD REPORT (CONTINUED)

In 2022, the Bank generated HRK 103,4 million of interest income, while the interest expenses amounted to HRK 7,9 million. Net interest income amounted to HRK 95,5 million and it increased by 15% comparing to the previous year. Net income from fees and commissions in 2022 amounted to HRK 23,7 million, which is an increase of 29% compared to the previous year as a result of the expansion in the customer base and strong focus on this area.

In the structure of income, net interest income has share of 66%, net fee and commission income 16%, while other revenues have share of 18%.

Total income amounted to HRK 145 million, representing an increase of 18% compared to 2021.

Total general and administrative expenses amounted to HRK 105 million, which is an increase of 23% compared to the previous year as a result of an increase in employee costs and the investments made in line with the bank's new strategy. In the expenses structure, 57% refers to staff costs, 30% to administrative expenses, and 12% to depreciation and amortization. The cost / income ratio of the Bank was 72% (2021: 70%).

Impairment losses and provisions amounted to HRK 1,1 million, 62% less than in the previous year mainly due to the strong collection performance for NPLs occurred in previous years and due to lower level of new NPLs and due to the development of the impairment model that resulted in a decrease in provisions, predominantly for exposures classified as Level 2.

Profit before tax amounted to HRK 39 million and profit after tax is HRK 31,7 million, return on assets (ROAA) is 0.85% and return on equity (ROAE) 7.95%.

In 2022, the Bank's management reassessed the business model for managing the securities portfolio and came to the conclusion that a change was needed in line with the overall environment. Accordingly, in the last quarter of 2022, the Bank reclassified financial assets at fair value through other comprehensive into financial assets at amortized cost. The aforementioned decision was considered in the context of meeting the criteria for changing the business model in accordance with the requirements of IFRS 9. The details of the reclassification are explained in Note 15.

KEY INDICATORS

Values in 000 HRK	2022	2021	Change	2020	2019	2018
Income Statement	**1.1. - 31.12.**	**1.1. - 31.12.**	**%**	**1.1. - 31.12.**	**1.1. - 31.12.**	**1.1. - 31.12.**
Net interest income	95,503	83,068	15%	75,119	77,931	67,636
Net fee&commission income	23,743	18,376	29%	11,867	12,092	11,014
Other income	25,538	21,283	20%	16,641	19,777	13,378
Total operating income	144,784	122,727	18%	103,627	109,800	92,028
Operating expense	(104,713)	(85,434)	23%	(72,634)	(71,552)	(66,038)
Total impairment losses	(1,086)	(2,862)	-62%	(23,874)	(18,242)	(18,455)
Profit after tax	31,653	28,143	12%	5,894	17,950	7,535
Balance Sheet	**31.12.**	**31.12.**	**%**	**31.12.**	**31.12.**	**31.12.**
Marketable securities	678,180	672,196	1%	522,564	495,723	497,559
Loans to customers	2,277,423	1,814,976	25%	1,546,351	1,449,256	1,417,154
Deposits from financial inst.	138,632	135,174	3%	163,504	157,109	89,127
Deposits from customers	3,126,901	2,517,626	24%	2,070,687	1,874,619	1,825,833
Shareholder's equity	432,718	363,725	19%	309,027	268,345	234,077
Total assets	4,071,540	3,363,540	21%	2,916,278	2,488,299	2,424,078
Key Ratios and Indicators	**31.12.**	**31.12.**	**%**	**31.12.**	**31.12.**	**31.12.**
ROAA after tax	0.85%	0.90%	(-) 0.05 pp	0.22%	0.73%	0.33%
ROAE after tax	7.95%	8.37%	(-) 0.42 pp	2.17%	7.15%	3.24%
Cost/Income ratio	72.3%	69.6%	2.7 pp	70.1%	65.2%	71.8%
NPL ratio	4.08%	5.15%	(-) 1.07 pp	7.93%	8.30%	7.26%
NPL coverage ratio	64%	64%	(-) 0.3 pp	84%	77%	73%
Liquidity coverage ratio	147%	145%	2 pp	144%	143%	132%
Regulatory Capital	403,147	335,534	20%	294,148	293,688	257,494
Total risk weighted assets (RWA)	2,450,403	2,147,409	14%	1,686,660	1,705,048	1,626,073
Tier 1 capital ratio	16.45%	15.77%	0.68 pp	17.79%	15.04%	14.09%
Total capital ratio	16.45%	15.77%	0.68 pp	17.79%	17.22%	16.37%
Other	**31.12.**	**31.12.**	**%**	**31.12.**	**31.12.**	**31.12.**
Employees (FTE)	232	208	12%	182	170	182
Branches & business centers	16	16	-	17	17	17

5. Development plan

The basic strategic direction of the Bank is by strengthening capital to achieve continuous growth of the banking activities which will ensure the preservation of the loan portfolio quality, good liquidity management practice and capital adequacy, business cost optimization, decrease in NPL, i.e. income growth and profit realization.

The key concept of the operations of the Bank is an individual approach to clients, as well as flexibility and efficiency in decision-making in relation to the larger banking system.

Strategic objectives

- Raising the market share and strengthening the competitiveness of the Bank on the market;
- Maintenance of good asset quality with focus on Retail and SME lending with collateralized loans;
- Maintaining and securing liquidity and funding sources;
- Generating a return on equity at least at the sector average;
- Continuous development and strengthening of the Bank's digital services;
- Strong increase of the customer base and products per client;
- Improvement of sales orientation in all business segments focusing on intensive cross-selling activities between all market segments of business operations;
- Investments in projects that contribute to the optimization of business processes;
- With the introduction of new products, establish the KentBank as a flexible, efficient and innovative bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- 'Cross border' - presence in the global market.

By further development of Turkish Desk and representative office of the Bank in Istanbul, aim is to be recognized as the only Turkish bank in Croatia which connects Turkish investors with Croatia.

In the coming period and in accordance with the applicable regulations and economic circumstances, the Bank intends to continue its activities aimed at establishing the Bank as a dynamic, fast, flexible, efficient, innovative organization, capable of creating new values for shareholders, clients, employees and the environment in which it works and operates.

Financial risk management

The operations of the Bank are exposed to various types of risks, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize them. The most significant types of financial risks to which the Bank is exposed are the credit risk, the liquidity risk, market risk and operational risk. The market risk includes the risk of change of interest rates, the risk of change of foreign exchange rates and the change of market value of securities.

a) Credit risk

Credit risk management is described in notes 27, 28 and 32b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 29 and 32c to the financial statements.

c) Market risk

Market risk management is described in notes 30, 31 and 32d to the financial statements.

d) Operational risk management

Operational risk management is described in note 32f to the financial statements.

Supervisory Board

During 2022, there were several changes in the composition of the Supervisory Board of the Bank and the Board consisted of five members. Their term of office is two years and they may be reappointed.

The powers of the Supervisory Board are governed by the Articles of Association of the Bank and by the Operating Procedures Manual of the Supervisory Board, in accordance with the applicable provisions of the Companies Act and the Credit Institutions Act.

The members of the Supervisory Board are as follows:

Mehmet Gani Sonmez	President of the Supervisory Board
Nurgün Eyüboğlu	Deputy President of the Supervisory Board (appointed from 24 Feb. 2022)
Zdenko Adrović	Supervisory Board Member (appointed from 19 Apr. 2022)
Gürol Baloğlu	Supervisory Board Member (appointed from 19 Apr. 2022)
Jasna Širola	Supervisory Board Member (appointed from 25 July 2022)
Hakan Özgüz	Deputy President of the Supervisory Board (end of appointment on 24 Feb. 2022)
Danijela Roguljić Novak	Supervisory Board Member (end of appointment on 25 July 2022)

MANAGEMENT BOARD REPORT (CONTINUED)

Management Board

In accordance with the provisions of the Articles of Association of the Bank, the Management Board may consist of up to five (5) members. The members of the Management Board, including the President of the Management Board, may be appointed by the Supervisory Board for a term of up to five (5) years, with possibility of re-election. Only the person who meets the conditions prescribed by the Credit Institutions Act, the Companies Act and the Decision on Suitability of the Croatian National Bank (CNB) may be appointed member of the Management Board with prior approval from the Croatian National Bank.

The Management Board has rights, duties and obligations prescribed by the Companies Act, the Credit Institutions Act and the Articles of Association of the Bank. The Management Board manages the operations of the Bank and its assets and it has the responsibility and the powers to take all the actions and make all the decisions necessary for successful management of the operations of the Bank and its performance.

The members of the Management Board in office from 1 January 2022 to the date of issuance of these financial statements, are as follows:

Hasan Ecesoy	President of the Management Board)
Damir Brkić	Management Board Member
Aleksandra Cvetković	Management Board Member
Nikolina Cvitanović	Management Board Member (appointed from 18 July 2022)

The Management Board, together with the Bank's team, will continuously work on improving the management system of the business processes, the risk management system, the expansion of the product range and the branch network, increasing the Bank's market share and enhancing the overall stability and reputation of the Bank.

For and on behalf of KentBank d.d.

Hasan Ecesoy
President of the Management Board

Kent Bank d.d.
Zagreb 3

Damir Brkić
Member of the Management Board

Aleksandra Cvetković
Member of the Management Board

Nikolina Cvitanović
Member of the Management Board

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual report

The Management Board of the Bank is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements, they are deemed confirmed by the Management Board and Supervisory Board. The Management Board is also responsible for the preparation and content of the management report in accordance with the Croatian Accounting Act.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions, dated 26 April 2018 (Official Gazette 42/18), 9 November 2020 (Official Gazette 122/20), 5 November 2021 (Official Gazette 119/21) and 8 September 2022 (Official Gazette 108/22).

The financial statements as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions, dated 26 April 2018 (Official Gazette 42/18), 9 November 2020 (Official Gazette 122/20), 5 November 2021 (Official Gazette 119/21) and 8 September 2022 (Official Gazette 108/22) with the reconciliation to statutory financial statements were authorized by the Management Board on 27 March 2023 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of KentBank d.d.

Hasan Ecesoy
President of the Management Board

Kent Bank d.d.
Zagreb

Damir Brkić
Member of the Management Board

Aleksandra Cvetković
Member of the Management Board

Nikolina Cvitanović
Member of the Management Board

Independent Auditors' report to the shareholder of KentBank d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KentBank d.d. ("the Bank"), which comprise the statement of financial position of the Bank as at 31 December 2022, and the statements of comprehensive income, cash flows and changes in equity of the Bank for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for credit institutions in the Republic of Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Independent Auditors' report to the shareholder of KentBank d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans to and receivables from customers

As at 31 December 2022, gross loans to and receivables from customers: HRK 2,362,338 thousand, related impairment allowance: HRK 84,915 thousand and release of impairment loss recognised in the income statement: HRK 2,626 thousand (31 December 2021, gross loans to and receivables from customers: HRK 1,904,608 thousand, impairment allowance: HRK 89,632 thousand and impairment loss recognised in the income statement: HRK 1,595 thousand).

Refer to Note 3 Accounting policies (Financial instruments), Note 4 Significant accounting estimates and judgements (Classification of exposures in risk categories and determination of impairment losses), Note 28 Credit portfolio quality and Note 17 Loans to and receivables from customers and Note 7a) Impairment losses and provisions.

Key audit matter	How our audit addressed the matter
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the loans and advances at the reporting date. We focused on this area as the determination of impairment allowances requires a significant judgment from the Management Board. The impairment allowances for the performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing unsecured exposures below HRK 500 thousand individually (Stage 3 in the provisioning regulations hierarchy) are determined by modelling techniques ("collective impairment allowance") relying on key parameters, including the probability of default (PD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information. Expected credit losses for non-performing exposures (Stage 3) exceeding HRK 500 thousand individually and individually non-significant exposures secured by hard collateral (as defined by the Croatian National Bank ("the CNB")), are determined on an individual basis by means of a discounted cash flow analysis. The process involves reliance on a number of significant subjective assumptions, including those in respect of the probable sale proceeds from the related collateral and minimum period for collateral disposal. Considered is the Bank's own historical experience and specific guidance of the Croatian National Bank (CNB) regarding minimum haircuts to be applied on the estimated value of collateral.	Our audit procedures in this area included, among others: — Inspecting the ECL impairment provisioning methodology and assessing its compliance with the relevant regulatory and financial reporting framework. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors; — Making relevant inquiries of the Bank's risk management and information technology (IT) personnel to update our understanding of the provisioning process and key data sources and assumptions in the ECL model. Also, testing of IT control environment for data security and access, assisted by our own IT specialists; — Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including those over the identification of loss events and default, appropriateness of classification of exposures into performing and non-performing, calculation of days past due and calculation of the impairment allowances; In addition, for loss allowances calculated on a collective basis: — Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and by reference to publicly available sources; — Challenging the collective LGD and PD parameters used by the Bank, by, among other things, performing back-testing of historical defaults and by reference to market relevant data and considering any required adjustments to reflect expected changes in circumstances; — Assessing whether the minimum impairment allowance requirements as prescribed by the CNB have been met, also considering the requirements of the financial reporting standards.

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans to and receivables from customers (continued)

Due to the above factors, coupled with the higher estimation uncertainty stemming from the current volatile economic outlook, the area required our increased attention in the audit and as such was determined to be a key audit matter.	For impairment allowances calculated individually, for a risk-based sample of exposures: — Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlist, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage; — For the sample selected, critically assessing the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2022, by reference to the underlying documentation (loan files), through discussion with the loan officers and credit risk management personnel; — For exposures with Stage 3 triggers identified, challenging key assumptions applied in the estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant. — Considering the adequacy of the ECLs recognised against the various minimum provisioning requirements of the CNB. For all impairment allowances: — Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage; — Evaluating the accuracy and completeness of the financial statement disclosures relating to expected credit losses against the requirements of the relevant financial reporting framework.

Independent Auditors’ report to the shareholder of KentBank d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprise of the Management Report included in the Annual Report of the Bank, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia (“Accounting Act”). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements which are presented fairly, in all material respects in accordance with statutory accounting requirements for credit institutions in the Republic of Croatia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditors' report to the shareholder of KentBank d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing 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 financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' report to the shareholder of KentBank d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021, 108/2022), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2022, and of the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 30 March 2022 to audit the financial statements of KentBank d.d. for the year ended 31 December 2022. Our total uninterrupted period of engagement is two years, covering the period from 1 January 2021 to 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 27 March 2023;
- for the period to which our statutory audit relates, we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

27 March 2023

KPMG Croatia
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Katarina Kecko
Director, Croatian Certified Auditor

This version of the Auditors' Report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the audit report takes precedence over this translation.

Statement of financial position
As at 31 December 2022

	Notes	31 December 2022	31 December 2021
		HRK 000	**HRK 000**
ASSETS			
Cash and current accounts with banks	12	975,091	616,677
Obligatory reserve with the Croatian National Bank	14	-	142,900
Financial assets at fair value through other comprehensive income	15a)	-	644,975
Financial assets at amortized cost	15b)	664,953	27,221
Financial assets held for trading	15c)	13,227	
Loans to and receivables from customers	17	2,277,423	1,814,976
Placements with other banks	16	57,465	37,747
Property, plant and equipment	18a)	42,929	42,724
Right-of-use asset	18b)	19,253	14,735
Intangible assets	18c)	14,286	12,652
Foreclosed assets	19	654	661
Other assets	20	6,259	8,272
TOTAL ASSETS		**4,071,540**	**3,363,540**
LIABILITIES			
Current accounts and deposits from banks and financial institutions	21a)	138,632	135,174
Current accounts and deposits from customers	21b)	3,126,901	2,517,626
Interest-bearing borrowings	21c)	269,571	273,067
Provisions for liabilities and charges	22	6,886	3,504
Income tax liability		2,780	4,446
Other liabilities	23	94,052	65,998
Total liabilities		**3,638,822**	**2,999,815**
EQUITY			
Ordinary share capital	24,24a)	390,237	352,522
Legal reserves	24,24b)	2,872	2,453
Retained earnings	24	39,609	8,375
Fair value reserve	24,24c)	-	375
Total equity		**432,718**	**363,725**
TOTAL LIABILITIES AND EQUITY		**4,071,540**	**3,363,540**

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

Statement of changes in shareholders' equity

As at 31 December 2022

HRK 000	Ordinary share capital (Note 24a)	Legal reserves (Note 24b)	Retained earnings (Note 24)	Fair value reserve (Note 24c)	Total
Balance at 1 January 2021	**315,392**	**2,453**	**(19,768)**	**10,950**	**309,027**
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	**-**	**-**	**-**	**(10,575)**	**(10,575)**
Total other comprehensive income/(loss)	**-**	**-**	**-**	**(10,575)**	**(10,575)**
Profit for the year	**-**	**-**	**28,143**	**-**	**28,143**
Total comprehensive income / (loss)	**-**	**-**	**28,143**	**(10,575)**	**17,568**
Transactions with owners recognized directly in equity:					
Increase in issued share capital	**37,130**	**-**	-	-	**37,130**
Balance at 31 December 2021	**352,522**	**2,453**	**8,375**	**375**	**363,725**
Balance at 1 January 2022	**352,522**	**2,453**	**8,375**	**375**	**363,725**
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	**-**	**-**	**-**	**(375)**	**(375)**
Total other comprehensive income/(loss)	**-**	**-**	**-**	**(375)**	**(375)**
Profit for the year	**-**	**-**	**31,653**	**-**	**31,653**
Total comprehensive income / (loss)	**-**	**-**	**31,653**	**(375)**	**31,278**
Transactions with owners recognized directly in equity:					
Transfer to legal reserves	**-**	**419**	**(419)**	-	**-**
Increase in issued share capital	**37,715**	**-**	**-**	-	**37,715**
Balance at 31 December 2022	**390,237**	**2,872**	**39,609**	**-**	**432,718**

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

Income statement

For the year ended 31 December 2022

	Notes	2022	2021
		HRK 000	*HRK 000*
Interest income and similar income	5	103,401	92,510
Interest expense and similar charges	6	(7,898)	(9,442)
Net interest income		**95,503**	**83,068**
Fee and commission income	8a)	28,301	22,234
Fee and commission expense	8b)	(4,558)	(3,858)
Net fee and commission income		**23,743**	**18,376**
Net realized gains from financial assets at fair value through other comprehensive income	9a)	2,528	3,311
Net losses on derecognition of financial assets measured through FVTPL		(27)	-
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading	9b)	22,573	17,230
Other income	9c)	464	742
		25,538	**21,283**
Total income		**144,784**	**122,727**
Depreciation and amortization	18a);18b);18c)	(12,905)	(10,280)
Staff costs	10a)	(60,208)	(51,325)
Other administrative expenses	10b)	(31,600)	(23,829)
Total general and administrative expenses		**(104,713)**	**(85,434)**
Impairment losses and provisions	7a	(1,079)	(2,855)
Provisions for court cases	7b	(7)	(7)
PROFIT BEFORE TAX		**38,985**	**34,431**
Income tax expense	11	(7,332)	(6,288)
PROFIT FOR THE YEAR		**31,653**	**28,143**

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

Statement of other comprehensive income
For the year ended 31 December 2022

	2022 *HRK 000*	2021 *HRK 000*
PROFIT FOR THE YEAR	31,653	28,143
Other comprehensive income, net of income tax		
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realized and deferred tax	(375)	(10,575)
Other comprehensive loss for the year	**(375)**	**(10,575)**
TOTAL COMPREHENSIVE INCOME	**31,278**	**17,568**

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

Cash flow statement
For the year ended 31 December 2022

	Note	2022	2021
		HRK 000	*HRK 000*
Cash flow from operating activities			
Profit before tax		**38,985**	**34,431**
Depreciation and amortization	18a),18b),18c)	12,905	10,280
Impairment losses and provisions	7	1,086	2,862
Write off and sale of tangible and intangible assets	18a),18b),18c)	430	3,153
Changes in operating assets and liabilities			
(Increase) or decrease in obligatory reserve and compulsory treasury bills with Croatian National Bank		142,900	(26,417)
Increase in placements with other banks with maturity over three months		(19,715)	(35,004)
Increase in loans to and receivables from customers		(459,601)	(271,207)
(Increase) or decrease in other assets		(8,998)	(4,208)
(Decrease) or increase in deposits from banks and financial institutions		1,839	(28,330)
Increase in current accounts and deposits from customers		3,458	446,939
Increase in other liabilities and provisions		609,279	30,423
Income tax paid		33,344	(3,109)
Net cash from operating activities		***355,912***	***159,813***
Cash flow from investment activities			
Payments for purchases of financial assets at amortized cost		(227,396)	30,014
Proceeds from redemption of financial investments at amortised cost		-	-
Payments for purchases of financial investments held for trading		(13,227)	-
Proceeds from redemption of financial investments held for trading		-	-
Payments for purchases of financial assets at fair value through other comprehensive income		-	(306,791)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income		234,099	116,468
Payments for purchase of property, plant and equipment and intangible assets	18a),18b),18c)	(19,848)	(28,512)
Receipts from sale of property, plant and equipment		163	128
Net cash from investment activities		***(26,209)***	***(188,693)***
Cash flow from financing activities			
Receipts from issued share capital		37,715	37,130
Receipts from interest-bearing borrowings	21d)	134,099	685,661
Repayments of interest-bearing borrowings	21d)	(137,595)	(741,043)
Payments for the principal portion of the lease liability	21d),23	(5,290)	(4,473)
Net cash from financing activities		***28,929***	***(22,725)***
Net (decrease) / increase of cash and cash equivalents		358,632	(51,605)
Cash and cash equivalents as at 1 January		616,912	668,517
Cash and cash equivalents as at 31 December	13	**975,544**	**616,912**
Operational cash flows from interest			
Interest paid		4,744	6,552
Interest received		99,658	91,627

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

Notes to the financial statements

1. General information

KentBank d.d. (hereinafter: the Bank), with its headquarters in Zagreb, Gundulićeva 1, was established in the Republic of Croatia and provides commercial banking services. The Bank is entered in the register of the Commercial Court in Zagreb. The Bank's parent company is SUZER HOLDING Anonim Sirketi and the majority stockholder is Mr. Mustafa Suzer.

2. Basis for preparation of the financial statements

a) Statement of Compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia. The statutory accounting requirements for banks in the Republic of Croatia as of 31 December 2022 are based on the recognition and measurement requirements of International Financial Reporting Standards as adopted in the EU ("EU IFRS" or "the Standards") and the CNB's banking regulations.

In these financial statements, balances in the statement of financial position and the related notes as of 31 December 2022 and 31 December 2021 are aligned to the EU IFRS recognition and measurement requirements, in all material respects.

The principal differences between the accounting regulations of the CNB (primarily the requirements of the Decision) and recognition and measurement requirements of EU IFRS are listed below. The differences identified do not raise material departure from the recognition and measurement requirements of EU IFRS as of 31 December 2022 and 31 December 2021:

- CNB required credit institutions to recognise expected credit losses, in the income statement, for eligible exposures carried at amortised cost classified in Stage 1 and Stage 2 that could not be less than 0.8% of the gross carrying amount of eligible exposures, including exposures to financial institutions and sovereigns. According to the provisions of Article 21 (2) of the Decision, from January 2020 banks in the Republic of Croatia are no longer obliged to recognise allowance for expected credit losses on stage 1 and stage 2 exposures carried at amortised cost and eligible off- balance sheet exposures of at least 0.8%. Following the specific CNB guidance (Q&A 2019-712), any resulting difference in expected credit losses is recorded in 2020 income statement.
- The Decision on the classification of exposures into risk categories and the method of determining credit losses ("the Decision") prescribes minimum levels of impairment losses against certain non-performing exposures for which individual impairment has been recognised, regardless of the net present value of expected future flows, so that the impairment calculated may be different from the impairment loss required to be recognised in accordance with the EU IFRS requirements.
- Suspended interest represents the accrued uncollected interest on assets which are classified as credit impaired. Upon reclassification the Bank provides the full amount of the accrued uncollected interest in the income statement, and ceases to recognise any further interest in the statement of financial position and recognises suspended interest off-balance-sheet until collected in cash from the borrower.

2. Basis for preparation of the financial statements (continued)

a) Statement of Compliance (continued)

The principal accounting policies applied in the preparation of these financial statements are summarised below. The Bank has consistently applied the following accounting policies to all periods presented in these financial statements. Where specific accounting policies are aligned with accounting principles set out in EU IFRS, reference may be made to certain Standards in describing the accounting policies of the Bank. Unless otherwise stated, these references are to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable as at 31 December 2022.

New standards effective from 1 January 2022 do not have a material effect on the Bank's financial statements.

b) Basis of measurement

These financial statements are prepared on an amortized or historical cost basis except for financial assets recognized on the fair value through other comprehensive income.

c) Judgments and estimates

In preparing the financial statements, the Management Board has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments of management in the implementation of standards which have a risk of significant adjustment in the following year are described in Note 4.

d) Functional and reporting currency

Financial statements are prepared in kuna which is the official currency of the environment in which the Bank operates (functional currency), and the amounts are presented in HRK, rounded to the nearest thousand.

Introduction of the euro from 1 January 2023 has no significant impact on the financial statements.

Notes to the financial statements (continued)

3. Accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

a) Interest income and expense

Interest income and expenses are recognized in the income statement for all interest-bearing instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is recognized depending on the degree of credit risk of a financial instrument and for financial assets classified in Stage 1 and Stage 2 (performing) - when calculating interest income, the EIR is applied to the gross carrying amount of financial assets, and for financial assets allocated to Stage 3 the interest is suspended. Suspended interest represents an already charged interest on an asset for which an individual impairment has been recognized (non-performing). At the time of reclassification into uncollectable receivables, the Bank impairs the full amount of accrued uncovered interest at the expense of the income statement and suspends further calculation in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

For purchased or originated credit-impaired financial assets decreased for credit losses - POCIs, the EIR adjusted for credit risk at the amortized cost of the POCI assets is applied in the calculation of interest income.

b) Fee and commission income and expense

Fee and commission income and expense are recognized in the income statement when the related service is provided. Fee and commission income and expense mainly comprise fees receivable for guarantees and letters of credit issued by the Bank on behalf of customers, and fees for domestic and foreign payment transactions.

c) Defined contribution pension plans

The Bank pays contributions to obligatory pension funds on a mandatory contractual basis calculated as percentage of gross salaries. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as staff costs in profit or loss as they accrue.

d) Short term and long term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability for bonus is recognized in the amount expected to be paid under short-term cash bonuses based on the Company's formal plan and when past practice has created a valid expectation by management/key employees that they will receive a bonus as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank also recognized a liability for other employees' benefits in the amount expected to be paid under jubilee awards based on the management decision.

3. Accounting policies (continued)

e) Foreign currencies

Transactions in foreign currencies are translated into Croatian Kuna ("HRK") at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are re-measured at each reporting date at the official mid spot foreign exchange rate of the Croatian National Bank ruling on the reporting date or at the Bank's selling rate if the placement is contracted accordingly.

Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined.

Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of at fair value through other comprehensive income equity instruments, which are recognized in other comprehensive income (refer below). Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as asset recognized through fair value in other comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences are recognized in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognized in other comprehensive income.

Official mid spot exchange rates effective as at 31 December 2022 were:

7.534500 = 1 EUR;
7.064035 = 1 USD;
7.651569 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2022 were:

7.517174 = 1 EUR;
6.643548 = 1 USD;
7.248263 = 1 CHF.

f) Financial instruments

Classification

On initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL)

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not designated at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows (HTC);
- The contractual terms of a financial asset presume cash flows that are solely principal and interest payments (SPPI), at specific dates.

3. Accounting policies (continued)

f) Financial instruments (continued)

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and if it is not designated at fair value through profit and loss account (FVTPL):

- The purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets (HTC&S); and
- contractual terms of financial assets presume cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Bank may irrevocably decide to display subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

All other financial assets are classified as measured at fair value through profit or loss (FVTPL).

In addition, at initial recognition, the Bank may irrevocably designate financial assets at fair value through profit or loss (FVTPL), although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income (FVOCI), if this eliminates or substantially reduces the accounting mismatch that would arise if contrary.

Business Model Assessment

The Bank determines the objective of the asset’s business model because it best represents the way in which assets are managed and the Bank’s management is reported. Information considered includes:

- management policies and portfolio objectives and implementation of these policies in practice;
- assessing the performance of the portfolio and reporting to the management of the Bank;
- risks affecting the performance of the business model (and financial assets within that business model) and the risk management strategy; and
- frequency, volume and time of sales in previous periods, reasons for the sale and expectations of future sales activities.

Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

The Bank’s retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Bank in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. During 2022, the Bank reassessed the model and made a reclassification as explained in note 15.

Assessment of whether contractual cash flows are solely principal and interest payments

In order to assess whether contractual cash flows are solely payments of principal and interest, the principal is defined as the fair value of financial assets at initial recognition. Interest is defined as compensation for the time value of money and credit risk associated with the outstanding principal amount over a specified period of time and for other basic risks and costs of lending (eg liquidity risk and administrative costs) and as a profit margin.

When assessing whether the contractual cash flows are solely principal and interest payments (SPPI), the Bank considers the contractual terms of the instrument. This includes assessing whether a financial asset contains a contractual term that could change the time or amount of contractual cash flows so that it would not meet the SPPI requirement. When assessing, the Bank considers:

- potential events that would change the amount and time of cash flows;
- terms of prepayment and extension; and
- features that alter the consideration of the time value of money (eg periodic interest rate reset).

Loans and advances to customers

The “Loans and advances to customers” caption in the statement of financial position includes loans and advances measured at amortised cost; initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank’s financial statements.

Financial assets measured at amortised cost

Financial investments measured at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These include debt securities.

Financial assets measured at fair value through other comprehensive income (FVOCI)

The Financial assets measured at fair value through other comprehensive income caption in the statement of financial position includes debt securities measured at fair value through other comprehensive income (FVOCI), gains and losses are recognised in other comprehensive income (OCI), except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income;
- calculation of Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss. Financial assets recognized at fair value through other comprehensive income comprise various debt securities.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include current accounts and deposits from financial institutions and customers and various payables.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Reclassification

Financial assets are not reclassified after initial recognition, except in the period after the change in the financial model for the financial asset management.

If the Bank reclassifies financial assets, it is obliged to apply the reclassification from the date of reclassification. The Bank does not restate previously recognized profit, loss (including profit or loss due to impairment) or interest.

If the Bank reclassifies a financial asset from the category at fair value through other comprehensive income to the category at amortized cost, the financial asset is reclassified at its fair value on the reclassification date. However, cumulative gains or losses previously recognized in other comprehensive income are removed from equity and adjusted to the fair value of the financial asset at the date of reclassification. Consequently, financial assets are measured at the date of reclassification as if they had always been measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not adjusted due to the reclassification.

According to IFRS 9 – B4.4.1, reclassifications are expected to be:

- very infrequent,
- are determined by the entity's senior management,
- result from external or internal changes,
- must be significant to the entity's operations,
- demonstrable to external parties and
- will occur only when an entity either begins or ceases to perform an activity that is significance to its operations.

The bank changed its business model during 2022, as explained later, and considers that it has met all the requirements of the reclassification standard.

3. Accounting policies (continued)

f) Financial instruments (continued)

Recognition and derecognition

The Bank derecognises a financial asset, such as a loan to customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, apart from quantitative factors, the bank considers the following: change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument no longer meets the SPPI criterion.

Derecognition of financial assets other than for substantial modification

A financial asset (or, a portion thereof or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as “pass-through” arrangements that result in derecogntion if the Bank: (i) has no obligation to make payments unless it collects equivalent amounts from the assets, (ii) is prohibited from selling or pledging the assets and (iii) has an obligation to remit any cash it collects from the assets without material delay.

Derecogntion of financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. If the terms of a financial liability are significantly modified, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Initial and subsequent measurement

Financial assets and liabilities are recognized initially at their fair value plus, except from the financial assets at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial assets valued at fair value through other comprehensive income at their fair value. Loans and receivables, investments measured at amortized cost and other financial liabilities are measured at amortized cost.

3. Accounting policies (continued)

f) Financial instruments (continued)

Gains and losses

Gains and losses from a change in the debt instruments at fair value through other comprehensive income are recognized directly in a fair value reserve within equity and are disclosed in the statement of changes in equity and reserves.

Impairment losses, foreign exchange gains and losses, interest income, amortization of premium or discount on an effective-interest-rate basis on monetary assets are recognised in the income statement.

Foreign exchange differences on non-monetary equity instruments classified as assets valued at fair value through other comprehensive income are recognised in other comprehensive income.

Dividend income is recognized in the income statement when the right to receive has been established. Upon sale or other derecognition of assets valued at fair value through other comprehensive income, any cumulative gains of losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost may also arise, and are included in the income statement when a financial instrument is derecognised or when its value (in the case of assets) is impaired.

Determination of fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability also reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

3. Accounting policies (continued)

f) Financial instruments (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

g) Impairment of financial assets

The Bank recognizes loss allowances for "expected credit losses" (hereinafter: ECL) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- debt instruments;
- financial guarantee contracts issued;
- loan commitments issued and
- loans and advances to customers.

The Bank measures impairment losses at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12-month expected credit loss (ECL):

- debt securities for which it was determined to have a low credit risk at the reporting date; and
- other financial instruments for which credit risk has not significantly increased since their initial recognition.

12-month expected credit losses (ECL) are the portion of expected credit loss (ECL) that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss (ECL) is recognized are referred to as “Stage 1 financial instruments”

Life-time expected credit losses (ECL) are the expected credit losses (ECL) that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss (ECL) is recognized but which are not credit-impaired are referred to as “Stage 2 financial instruments” Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Financial instruments for which lifetime ECL are recognized and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

Measurement of ECL

For the calculation of impairment, the Bank has been aligned with Decision on the classification of the exposures into risky groups and the manner on determining credit losses. Based on the CNB Decision, the Bank adopted the Rulebook on the classification of the exposure of the Bank into risk categories defining the rules for assessing the deterioration of credit risk and for determining 12-month and lifetime expected credit losses, factoring in macroeconomic projections reflecting the credit cycle (such as GDP growth rate and unemployment rate). New models had been developed based on statistical segmentation of the portfolio and creation of homogeneous clusters of clients according to their underlying risk .

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

Notes to the financial statements (continued)

3. Accounting policies (continued)

g) Impairment of financial assets (continued)

– financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

– financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

– undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

– financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract such as a default or past-due event;

– the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

– The market's assessment of creditworthiness as reflected in bond yields.

– The rating agencies' assessments of creditworthiness and

– The country's ability to access the capital markets for new debt issuance.

3. Accounting policies (continued)

g) Impairment of financial assets (continued)

If there is objective evidence that an impairment loss on loans and receivables or financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate or in accordance with the percentage prescribed by the CNB in certain eligible circumstances. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For exposures classified as Stage 1, expected credit loss (ECL) is calculated as the product of 12-month probability of default (PD) multiplied with the loss given default (LGD) and the exposure at default (EAD).

For exposures classified as Stage 2, lifetime expected credit loss (ECL) is calculated as the product of the corresponding multi-annual probability of default (i.e. the corresponding PD for the remaining years of loan repayment) multiplied by the loss given default (LGD) and the exposure at default (EAD).

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as reversals of impairment losses in the income statement.

When possible, the Bank implements loan restructuring rather than initiate enforcement action. This may include the extension of repayment period and other changes in credit conditions. After changing conditions, any further impairment calculation is made with the original effective interest rate applicable prior to changing conditions. The management continuously monitors restructured loans with regards to the fulfillment of the new conditions and security of future payments. These loans are subject to further regular testing of impairment on an individual or group basis (if they are not individually assessed as impaired or if they belong to the portfolio of collectively provisioned loans) using the original effective interest rate.

3. Accounting policies (continued)

h) Specific financial instruments

Placements with other banks

Placements with other banks are classified as loans and receivables and are carried at amortised cost less any impairment losses.

Loans to customers

Loans and advances are presented net of impairment allowances to reflect the estimated recoverable amounts.

Current accounts and deposits from banks and customers

Current accounts and deposits from banks and customers are classified as other liabilities and stated at amortised cost.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

i) Property and equipment

Property and equipment are held for use in the supply of services or administrative purposes.

Items of property and equipment are shown at cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Bank capitalise the cost of replacing part of such an item when it is probable that future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures on repairs and maintenance are expensed as incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful life. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

	2022 *years*	**2021** *years*
Buildings	10-50	10-50
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10
Furniture and vehicles	4-6	4-5

3. Accounting policies (continued)

i) Property and equipment (continued)

The residual value of assets, depreciation method and useful lives are reviewed and adjusted, if necessary, at each reporting date. The net carrying value of an asset is immediately impaired to the recoverable amount if the carrying value of the asset is higher than the estimated recoverable amount. Gains and losses from sale are measured as the difference between the collected amount and the net carrying value, and recognised in the income statement. From 2014, the Bank applies component approach for newly acquired buildings.

j) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight- line basis to write down the cost of assets to their residual values over their estimated useful life.

The estimated useful lives are as follows:

	2022 *years*	**2021** *years*
Software and licences	4-5	4-5
Leasehold improvements	up to 5	up to 5

Leasehold improvements are amortised over the shorter of the life of the lease or 5 years. Costs incurred in order to enhance or extend the benefits of computer software programmes beyond their original specifications and lives which can be measured reliably are capitalised to the original cost of the software. All other maintenance is expensed as incurred.

k) Impairment of non-financial assets

The recoverable amount of non-financial assets, other than deferred tax assets is the higher of the asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest groups of assets that generate separately identifiable cash inflows (cash-generating units).
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

l) Foreclosed assets

Foreclosed assets are stated at lower of the net recoverable value of property and the value of the related receivables. The carrying value of these assets approximates their market value.

m) Leases

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3. Accounting policies (continued)

m) Leases (continued)

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Leasehold 5 to 10 years
- Motor vehicles and other equipment 2 to 5 years

The right-of-use assets are presented within Note 18b.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

n) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

o) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance sheet accounts, such as guarantees, commitments to extend credit and letters of credit and undrawn loan commitments. 'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. The Bank has issued no loan commitments that are measured at FVTPL. Liabilities arising from financial guarantees and loan commitments are included within provisions.

3. Accounting policies (continued)

p) Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income/equity, in which case it is recognised in other comprehensive income/equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

r) Ordinary share capital and reserves

Ordinary share capital is denominated in HRK at its nominal value. The amounts paid for repurchase of ordinary share capital, including direct costs, are recognised as a decrease in equity and classified as treasury shares.

s) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less.

t) Treasury shares

Acquisition of treasury shares is conducted in cases envisaged by the Companies Act, in order to eliminate contingent losses. Redeemed treasury shares are recognised at acquisition cost. Any positive difference created by the sale of treasury shares at a price higher than the acquisition cost is recognised as a capital gain, and any negative difference generated below the cost of acquisition is recognised as a capital loss.

4. Significant accounting estimates and judgments

Accounting estimates and judgments

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value are also described below.

Classification of exposures in risk categories and determination of impairment losses

The Bank shall classify portfolio in risk categories according to the credit risk in accordance with IFRS 9 for the following types of instruments:

- Financial assets carried at amortized costs,
- Financial assets carried at fair value through other comprehensive income except for equity instruments and
- Loan commitments and financial guarantees.

Throughout the whole contract period the Bank observes and estimates customers' creditworthiness and classifies it into risk categories based on all three indicators:

i. Customer's creditworthiness;
ii. Customer's ability to meet the obligations towards the Bank;
iii. Collaterals quality per each exposure.

Risk categories "A-1" and "A-2"

Classification for risk category A (performing exposures) is only for those customers who are not in the status of default. Risk category A has following risk subcategories:

i. A-1 (Stage 1) if after the initial recognition of customers' exposure credit risk has not increased significantly;
ii. A-2 (Stage 2) if after the initial recognition of customers' exposure credit risk has increased significantly

The Bank has taken the orderliness of the debtor in settling due obligations as a mandatory indicator; if the debtor is late for paying its due exposures to the Bank for longer than 30 days, but still within the deadlines not exceeding 90 days, the Bank shall classify it to the risk subcategory A-2. Additional indicators are used for the requirements of determining the significantly increased credit risk:

i. The debtor has been assigned WL2 monitoring status.
ii. Deterioration of the internal and external credit rating/quality.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

For exposures classified as A-1 (stage 1), expected credit loss (ECL) is calculated as the product of 12-month probability of default (PD) multiplied with the loss given default (LGD) and the exposure at default (EAD). For exposures classified as A-2 (stage 2), lifetime expected credit loss (ECL) is calculated as the product of the corresponding multi-annual probability of default (i.e. the corresponding PD for the remaining years of loan repayment) multiplied by the loss given default (LGD) and the exposure at default (EAD).

During 2022, the Bank further upgraded its models for assessing ECL. The calculation of PD is based on statistical segmentation of the portfolio and creation of homogeneous clusters of clients according to their underlying credit risk (in 2021 the PDs were modelled with interval historical data and calculated through transition matrix). In 2021, the Bank only differentiated PD based on the debtors segment (retail or legal entity). The new segmentation is divided depending on the debtors internal rating, level of income, industry, product and collateral.
The aforementioned change represents a change in the Bank's estimates. The net effect of applying the new PD parameters for legal entities is an increase in impairment by HRK 5 million, and the net effect of applying the new PD parameters for retail exposures is the release of impairment by HRK 6 million. The new segmentation and its impact are shown below:

Segment (Legal entities)	PD at the end of 2021	PD at the end of 2022	Share of segment in total exposure	Coverage with provisions before PD change	Coverage with provisions after PD change
1		0,40%	9%	0,60%	0,23%
2		0,50%	11%	0,51%	0,27%
3		1,04%	5%	0,45%	0,54%
4		1,29%	10%	0,48%	0,68%
5	0,84%	1,62%	13%	0,58%	0,81%
6		0,41%	4%	0,50%	0,21%
7		1,89%	4%	1,40%	2,17%
8		1,33%	8%	0,91%	1,12%
9		2,11%	36%	0,73%	1,18%
TOTAL				0,66%	0,85%

Segment (Retail)	PD at the end of 2021	PD at the end of 2022	Share of segment in total exposure	Coverage with provisions before PD change	Coverage with provisions after PD change
1	2,53%	**6,88%**	1%	1,95%	5,16%
2		**0,64%**	43%	1,63%	0,29%
3		**1,26%**	45%	1,70%	0,66%
4		**5,82%**	11%	3,15%	5,26%
TOTAL				**1,83%**	**1,07%**

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

Scenarios and macroeconomic variables as at 31 December 2022 are presented below.

Scenario	Ponder	Macro variables	Year 0	Year 1	Year 2	Year 3
Optimistic	10%	GDP _yoy-1	10.2	5.5	3.0	5.0
		Unemployment rate	6.3	5.1	5.1	5.1
Base	60%	GDP _yoy-1	10.2	5.5	1.0	1.7
		Unemployment rate	6.3	6.3	5.9	5.8
Pesimistic	30%	GDP _yoy-1	10.2	5.5	-3.2	0.0
		Unemployment rate	6.3	6.7	6.7	6.7

Below is a sensitivity analysis if there is a change in the assumptions in the scenario:

		2023	2024	2025
Pesimistic scenario	GDP growth	-3.20%	0.00%	0.70%
	Unemployment rate	6.7pp	6.7pp	6.7pp
Optimistic scenario	GDP growth	3.00%	5.00%	5.00%
	Unemployment rate	5.1pp	5.1pp	5.1pp

In case the bank implemented two above shown scenarios in forward looking element within PD models, the effect on provisions would be shown as in the table below.

	The Bank		Retail		Legal Entites	
	Relative change of provisions	Absolute change of provisions (in ths HRK)	Relative change of provisions	Absolute change of provisions (in ths HRK)	Relative change of provisions	Absolute change of provisions (in ths HRK)
Pesimistic scenario	5.77%	1,523	7.51%	674	4.87%	849
Optimistic scenario	-11,08%	-2,925	-9.69%	-869	-11.79%	-2,056

The Bank plans to update relevant variables for PD modelling and macroeconomic outlook at least on a yearly basis (or more frequently in case of significant changes in the environment), and to follow its soundness quarterly through default rates.

Bearing in mind the complexity of the IFRS 9 standard in terms of LGD model development on the one hand, as well as the size of the Bank, the relatively simple portfolio structure and a small number of data on the other hand, the Bank uses the LGD parameters defined by the Basel Framework. In accordance with its estimate of LGD parameters, the Bank adds a conservative factor of 5 pp.

The values of LGD parameters used by the Bank are as follows:

• Retail collateralized - 40%
• Retail uncollateralized - 80%
• Legal entities - 50%
• Banks - 45%
• Sovereigns - 45%
• Loans secured with a special-purpose deposit - 15%, and those fully secured by deposit – 0%

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

The exposure at default (EAD) is gross book value of exposure at the reporting date, with the implementation of Credit Conversion Factor (CCF) of 20% and 50% for guarantees (in line with Regulation 575/2013) during 2022 (previously, the Bank used CCF of 100%). The Bank performed analysis of called payments under guarantees during previous ten years, and the amount that converted from offbalance sheet items to balance sheet items is significantly less than implemented CCFs. The effect of the implemented CCF is releasing of 4,75 million HRK provisions.

Risk categories "B" and "C"

Exposure to the customers classified as in default are classified in risk subcategory B-1 or worse and appropriate impairment is recognized. Impairment according to the risk subcategory B-1 must be at least 2%.

Exceptionally, the Bank may estimate that impairment of exposure to a customer in the status of default in risk subgroup B-1 is less than 2%, but the Bank shall take into account the likelihood or probability of credit loss in a way that reflects the probability of the credit loss and likelihood of a lack of credit loss, even if the likelihood of credit loss is very small.

Risk category B – partly recoverable exposure which are classified into three subcategories, depending on the percentage of the impairment losses recognized in relation to the nominal carrying amount:

B1 – when the level of impairment and provisions does not exceed 30% of the exposure amount;

B2 – when the level of impairment and provisions amounts to more than 30% (minimum 30.01%) and not more than 70% of the exposure amount;

B3 – when the level of impairment and provisions is more than 70% (minimum 70.01%) and less than 100% of the exposure amount.

The Bank classifies its exposures into two groups: small loan portfolio (group of related exposures below 500 thousand HRK) and individually significant exposures (group of related exposures exceeding 500 thousand HRK). Impairment of small loan portfolio is assessed for impairment on collectively basis.

In accordance with Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 114/2017,110/2018) the Bank will assess credit risk or recovery of placements on a small loan portfolio basis and act in accordance with the criteria of days-past due buckets applicable to partially recoverable placements on an individual basis.

Classification and impairment levels for small loan portfolio

RISK GROUP	IMPAIRMENT	NUMBER OF DAYS
B 1	10%	91-120
B 1	20%	121-180
B 2	30%	181-210
B 2	40%	211-230
B 2	50%	231-250
B 2	60%	251-270
B 3	70%	271-300
B 3	80%	301-330
B 3	90%	331-365
C	100%	More than 365

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

The level of impairment of individually significant exposures classified into risk categories B and C is determined as a probability weighted difference between the gross carrying amount of an individual exposure and the present value of estimated debtor's future cash flows discounted by applying the effective interest rate.

The Management Board believes that both individual and collective impairment losses and provisions are sufficient.

Legal cases

The Bank performs a risk classification of lawsuits taking into consideration the following principles: legal grounds of the claim; prior legal practice; opinions of relevant outsourced attorneys and other independent legal or other experts.

Lawsuits are classified into two groups: where the Bank expects a fully successful outcome and where the Bank expects to lose the case.

The Management Board believes that the provisions for legal cases are sufficient at the reporting date.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

Fair value hierarchy

Fair value hierarchy is presented in Note 33.

Notes to the financial statements (continued)

5. Interest income and similar income

a) Interest income analyzed by product:

	2022	2021
	HRK 000	*HRK 000*
Interest income calculated using the effective interest method		
Interest income from loans to and receivables from customers	92,324	82,304
Interest income from financial investments at amortized cost	10,250	5,206
Interest income from financial assets at fair value through other comprehensive income	316	4,775
Interest income from deposits	504	225
	103,394	*92,510*
Other interest income		
Interest income from financial investments held for trading	7	-
	7	-
TOTAL	**103,401**	**92,510**

b) Interest income analyzed by sectors:

	2022	2021
	HRK 000	*HRK 000*
Companies	52,218	42,831
Individuals (retail)	43,173	38,568
Central government and local authorities	5,432	5,308
Financial institutions	2,533	4,470
Other	45	1,333
TOTAL	**103.401**	**92,510**

6. Interest expense and similar charges

a) Interest expense analyzed by product:

	2022	2021
	HRK 000	*HRK 000*
Interest expense from term deposits	5,382	6,187
Interest expense from demand deposits	156	509
Interest expense from borrowings	1,268	1,268
Other	1,092	1,478
TOTAL	**7,898**	**9,442**

6. Interest expense and similar charges (continued)

b) Interest expense analyzed by sector:

	2022	2021
	HRK 000	*HRK 000*
Interest expense to individuals (retail)	3,198	4,395
Interest expense to financial institutions	2,604	3,133
Interest expense to non-residents	1,120	425
Interest expense to companies	910	1,391
Other	66	98
TOTAL	**7,898**	**9,442**

7. Impairment losses and provisions

a) Impairment losses and provisions

				2022
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment of loans to and receivables from customers (Note 17)	1,373	1,056	197	2,626
Impairment of placements with other banks (Note 16)	3	-	-	3
Impairment of other assets (Note 20a)	(1)	2	(174)	(173)
Impairment of financial investments held to maturity (Note 15b)	150	(315)	-	(165)
Provisions for off-balance-sheet exposure to credit risk (Note 22b)	(1,507)	(288)	(1,575)	(3,370)
TOTAL	**18**	**455**	**(1,552)**	**(1,079)**

				2021
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment of loans to and receivables from customers (Note 17c)	(755)	(2,993)	2,153	(1,595)
Impairment of placements with other banks (Note 16)	(22)	-	-	(22)
Impairment of other assets (Note 20a)	7	5	(116)	(104)
Impairment of financial investments at amortised cost *(Note 15b)*	357	-	-	357
Impairment of financial investments at fair value through OCI	(471)	-	-	(471)
Provisions for off-balance-sheet exposure to credit risk (Note 22b)	(1,047)	21	6	(1,020)
TOTAL	**(1,931)**	**(2,967)**	**2,043**	**(2,855)**

Notes to the financial statements (continued)

7. Impairment losses and provisions (continued)

b) Provisions for court cases

	Stage 1	Stage 2	Stage 3	Total
				2022
				HRK 000
Provisions for court cases (Note 22a)	7	-	-	7
TOTAL	**7**	**-**	**-**	**7**

	Stage 1	Stage 2	Stage 3	Total
				2021
				HRK 000
Provisions for court cases (Note 22a)	7	-	-	7
TOTAL	**7**	**-**	**-**	**7**

8. Fee and commission income and expense

a) Fee and commission income

	2022	2021
	HRK 000	*HRK 000*
Payment transaction fees	18,262	13,864
Letter of credit and guarantee fees	8,192	5,535
Other banking services	1,847	2,835
TOTAL	**28,301**	**22,234**

b) Fee and commission expenses

	2022	2021
	HRK 000	*HRK 000*
Card business	1,842	1,373
Domestic banks	1,277	1,256
Payment transaction	1,267	1,065
Domestic clients	113	109
Croatian National Bank	59	55
TOTAL	**4.558**	**3,858**

Notes to the financial statements (continued)

9a. Net realised gains from financial assets at fair value through other comprehensive income

	2022	2021
	HRK 000	*HRK 000*
Domestic sovereign bonds at fair value through other comprehensive income	2,842	2,708
Foreign sovereign bonds at fair value through other comprehensive income	(314)	603
TOTAL	**2,528**	**3,311**

9b. Net losses from translation of monetary assets and liabilities and foreign exchange spot trading

	2022	2021
	HRK 000	*HRK 000*
Net gains/(losses) from translation of monetary assets and liabilities		
- items denominated in foreign currency	(2,081)	1,954
- items linked to foreign currency	2,550	(2,074)
Net gain from foreign exchange spot trading	22,104	17,350
TOTAL	**22,573**	**17,230**

9c. Other income

	2022	2021
	HRK 000	*HRK 000*
Income from invoiced notaries expenses	165	152
Net gain from sale of assets	50	54
Income from operating lease	20	168
Income from reversal of provisions	-	312
Other	229	56
TOTAL	**464**	**742**

Notes to the financial statements (continued)

10. Staff costs and other administrative expenses

a) Staff costs

	2022	2021
	HRK 000	*HRK 000*
- Net salaries to employees	32,926	27,806
- Contributions, taxes and surtaxes from salaries	15,144	12,625
- Contributions on salaries	7,476	6,219
- Other	4,662	4,675
TOTAL	**60,208**	**51,325**

Staff costs include HRK 9,159 thousand (2021: HRK 7,614 thousand) of defined pension contributions payable into obligatory pension plans.

During 2022, average number of employees was 243 (2021: 214).

b) Other administrative expenses

	2022	2021
	HRK 000	*HRK 000*
Other services	6,153	4,636
Maintenance expenses	5,245	4,162
Intellectual services	3,378	1,917
Costs of deposit insurance	2,287	-
Material costs and similar charges	2,270	1,636
Mail and phone expenditure	1,591	1,490
Marketing and advertisement expenditure	1,490	2,010
Rent expenses	1,306	1,097
Insurance and protection expenses	914	951
Other expenditure	6,966	5,930
TOTAL	**31,600**	**23,829**

The total amount of fees paid by the Bank to the audit company, the independent auditor for audit services for the year 2022 is HRK 668 thousand (for the year 2021 it was HRK 301 thousand).

11. Income tax

	2022	2021
	HRK 000	*HRK 000*
Accounting profit before tax	**38,985**	**34,431**
Income tax at 18% (2021: 18%)	7,017	6,198
Non-deductible expenses	1,062	939
Non-taxable income	(747)	(849)
Income tax for the year	**7,332**	**6,288**
Utilization of carry forward tax losses	-	-
Income tax expense recognised in profit or loss	**7,332**	**6,288**
Effective income tax rate	**19%**	**18%**

12. Cash and current accounts with banks

	31 December 2022 *HRK 000*			**31 December 2021** *HRK 000*		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Current accounts with the CNB	798,495	107,220	905,715	287,371	182,313	469,684
Current accounts with other banks	-	30,568	30,568	-	105,890	105,890
Cash in hand	31,139	8,122	39,261	36,359	4,979	41,338
ECL allowance	(399)	(54)	(453)	(144)	(91)	(235)
TOTAL	**829,235**	**145,856**	**975,091**	**323,586**	**293,091**	**616,677**

13. Cash and cash equivalents

	31 December 2022	**31 December 2021**
	HRK 000	*HRK 000*
Cash on accounts with the CNB (Note 12)	905,715	469,684
Cash on accounts with other banks (Note 12)	30,568	105,890
Cash in hand (Note 12)	39,261	41,338
TOTAL	**975,544**	**616,912**

14. Obligatory reserve with Croatian National Bank

According to Regulation (EU) 2021/378 banks shall calculate their reserve base using the statistical information on deposits and debt securities issued.

The following liabilities shall be excluded from the reserve base:

(a) liabilities owed to any other institution where that institution:

(i) is subject to minimum reserve requirements pursuant to this Regulation; and

(ii) is not exempt or has not been granted an exemption from minimum reserve requirements pursuant to this Regulation

(b) liabilities owed to the ECB or to an NCB of a euro area Member State.

Minimum reserves shall be calculated using the following reserve ratios for each of the liabilities of the reserve base:

(a) a reserve ratio of 0 % shall apply to the following categories:

(i) deposits which fulfil one of the following conditions:

— have an agreed maturity over two years.

— are redeemable at notice over two years.

— are repurchase agreements (repos).

(ii) debt securities issued with an original maturity over two years.

(b) a reserve ratio of 1 % on all other liabilities included in the reserve base.

Institutions shall hold minimum reserves as follows:

(a) the average end-of-day balance on one or more reserve accounts over the maintenance period shall be equal to or shall exceed the amount calculated for that period.

(b) minimum reserves shall be held on reserve accounts, denominated in euro, with the relevant NCBs in each euro area Member State in which they are established;

(c) settlement accounts with the NCBs may be used as reserve accounts for the purposes of this Regulation.

(d) funds subject to any legal, contractual, regulatory or other restriction that would prevent the institution from liquidating, transferring, assigning or disposing of such funds during the relevant main tenance period shall be excluded from the reserve holdings.

	31 December 2022	**31 December 2021**
	HRK 000	***HRK 000***
Allocated obligatory reserve in HRK	-	142,971
ECL allowance	-	(71)
Total	**-**	**142,900**

In accordance with the Decision on Amendments to the Decision on Mandatory Reserves (Official Gazette 83/2022), the percentage of allocation of the HRK part of the mandatory reserve is 0%.

15. Financial investments

a) Financial assets at fair value through other comprehensive income

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Domestic sovereign bonds	-	421,041
Domestic sovereign treasury bills	-	90,255
Foreign sovereign bonds	-	78,318
Foreign corporate bonds	-	55,361
From which		
Listed	-	554,720
Unlisted	-	90,255
TOTAL	**-**	**644,975**

In 2022, the bank reassessed the business model of managing the securities portfolio and came to the conclusion that there had been a change in the business model. The aforementioned changes were mainly driven by Croatia's upcoming entry into the Eurozone in 2023, regulatory changes, but also changes in the organizational structure of the Bank, including changes to the planning, monitoring and organization of the Treasury. Taking into account that the EURO becomes the local currency, which already in 2022 has resulted in the easing of monetary policy (with a reduction in the ratio of required reserves of the Croatian National Bank), easier management of the foreign exchange position and greater access to ECB financing, which overall reduces the need to dispose of securities for liquidity management Banks except in stressful situations.

Taking into account the aforementioned reasons, in the last quarter of 2022, the Bank moved all securities from the HTC&S portfolio to the HTC portfolio. The aforementioned decision was considered in the context of meeting the criteria for changing the business model in accordance with the requirements of IFRS 9. The securities were reclassified at their fair value adjusted for the amount in the reserve recognized in equity, and as a result the value of the bonds was changed prospectively as if they were always measured at amortized cost.

The bank also started using the HFT portfolio together with the HTC portfolio as part of a new business model in securities management.

b) Financial investments at amortised cost

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Domestic sovereign bonds	258,794	-
Foreign sovereign bonds	251,945	15,548
Foreign corporate bonds	101,285	-
Domestic sovereign T-bill	37,660	-
Factoring – receivables from companies	14,821	1,130
Factoring – receivables from state and local authorities	1,569	10,704
Bills of exchange – companies	993	-
ECL allowance	(2,114)	(161)
TOTAL	**664,953**	**27,221**

15. Financial investments (continued)

Movement in impairment allowance against financial investments at amortised cost:

	2022	2021
	HRK 000	*HRK 000*
Balance at 1 January	**161**	**3,943**
Release for the year (Note 7)	(165)	(357)
Reclassification	2,118	-
Write off	-	(3,425)
Balance at 31 December	**2,114**	**161**

c) Financial investments held for trading

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Foreign sovereign bonds	13,227	-
TOTAL	**13,227**	**-**

Notes to the financial statements (continued)

16. Placements with other banks

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Placements with other domestic banks - in HRK	21,698	10,221
Placements with other domestic banks - in foreign currency with original maturity up to 3 months	22,682	35,000
Placements with other domestic banks - in foreign currency with original maturity over 3 months	23,337	2,781
ECL allowance	(10,252)	(10,255)
TOTAL	**57,465**	**37,747**

a) Movement in impairment allowance against placements with other banks in HRK:

	2022	2021
	HRK 000	*HRK 000*
Balance at 1 January	(10,255)	(10,233)
Release/(Charge) recognized in profit or loss (note 7)	3	(22)
Balance at 31 December	**(10,252)**	**(10,255)**

17. Loans to and receivables from customers

a) Analysis according to types of loans

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Short-term loans:		
Companies	281,169	157,610
Retail customers	31,363	23,244
Other customers	32,544	914
Total short-term loans	**345,076**	**181,768**
Long-term loans:		
Companies	876,827	868,338
Retail customers	1,090,270	821,443
Other customers	50,165	33,059
Total long-term loans	**2,017,262**	**1,722,840**
Total short-term and long-term loans	**2,362,338**	**1,904,608**
Impairment allowance	(84,915)	(89,632)
TOTAL	**2,277,423**	**1,814,976**

The classification above is based on original contractual maturity, while the remaining contractual maturities are analyzed in Note 29.

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

b) Loans by industry/product

	31 December 2022	31 December 2021
	HRK 000	***HRK 000***
Services	307,975	306,350
Manufacturing	326,673	253,919
Trade	117,112	136,489
Construction	176,822	120,431
Tourism	96,093	117,448
Agriculture	118,077	76,318
Other	62,813	20,270
Gross corporate	***1,205,565***	***1,031,225***
Cash loans	447,712	381,217
Housing loans	426.420	282,543
Tourist loans	57,254	42,608
Overdraft	8.707	8,220
Mortgage loans	3,807	6,040
Credit card receivables	5.808	5,690
Other	172.001	118,368
Retail gross	***1,121,709***	***844,686***
Other gross	***35,064***	***28,697***
Total gross	**2,362,338**	**1,904,608**
Impairment allowance	**(84,915)**	**(89,632)**
TOTAL	**2,277,423**	**1,814,976**

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

				2022
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2022	**1,596,924**	**207,806**	**99,878**	**1,904,608**
New assets originated or purchased	1,027,734	20,996	7,485	1,056,215
Assets derecognised or repaid (excluding write offs)	2,547	2,547	2,547	7,641
Transfers to Stage 1	46,161	(45,604)	(557)	-
Transfers to Stage 2	(40,671)	43,884	(3,213)	-
Transfers to Stage 3	(9,704)	(4,869)	14,573	-
Collection	(485,703)	(97,826)	(19,587)	(603,116)
Amounts written off	-	-	(3,023)	(3,023)
Foreign exchange adjustments	-	-	13	13
At 31 December 2022	**2,137,288**	**126,934**	**98,116**	**2,362,338**

				2021
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2021	**1,376,745**	**166,825**	**133,369**	**1,676,939**
New assets originated or purchased	766,720	496	6,409	773,625
Assets derecognised or repaid (excluding write offs)	(3,574)	(1,304)	(5,190)	(10,068)
Transfers to Stage 1	4,225	(1,490)	(2,735)	-
Transfers to Stage 2	(112,146)	113,304	(1,158)	-
Transfers to Stage 3	(18,800)	(8,061)	26,861	-
Collection	(416,246)	(61,964)	(15,058)	(493,268)
Amounts written off	-	-	(42,629)	(42,629)
Foreign exchange adjustments	-	-	9	9
At 31 December 2021	**1,596,924**	**207,806**	**99,878**	**1,904,608**

				2022
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2022	**13,536**	**11,447**	**64,649**	**89,632**
New assets originated or purchased	7,323	692	1,039	9,054
Assets derecognised or repaid (excluding write offs)	(2,245)	(2,412)	(5,799)	(10,456)
Transfers to Stage 1	3,675	-2,002	(1,673)	-
Transfers to Stage 2	(302)	1,238	(936)	-
Transfers to Stage 3	(18)	-251	269	-
Net Increase / (Reversal) of provisions	(5,547)	-3,200	7,523	(1,224)
Amounts written off	-	-	(2,078)	(2,078)
Foreign exchange adjustments	-	-	(13)	(13)
At 31 December 2022	**16,422**	**5,512**	**62,981**	**84,915**

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

				2021
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2021	**10,706**	**9,826**	**110,056**	**130,588**
New assets originated or purchased	9,851	150	621	10,622
Assets derecognised or repaid (excluding write offs)	(3,574)	(1,304)	(5,190)	(10,068)
Transfers to Stage 1	1,786	(1,011)	(775)	-
Transfers to Stage 2	(6,646)	6,810	(164)	-
Transfers to Stage 3	(2,044)	(20)	2,064	-
Net Increase / (Reversal) of provisions	3,457	(3,003)	587	1,041
Amounts written off	-	-	(42,542)	(42,542)
Foreign exchange adjustments	-	-	(9)	(9)
At 31 December 2021	**13,536**	**11,448**	**64,648**	**89,632**

Net impairment charge for loans to and receivables from customers is included in the analysis within Note 7 Impairment losses and provisions and is recognized in profit or loss.

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets

a) Movement in property, plant and equipment in thousand HRK

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2022	425	40,782	19,411	5,238	2,722	68,578
Additions	-	1,781	2,046	2,115	(1,598)	4,344
Transfer	-	-	515	-	(515)	-
Write-off and disposals	(420)	(217)	(2,052)	(540)	-	(3,229)
Balance 31 December 2022	**5**	**42,346**	**19,920**	**6,813**	**609**	**69,693**
Depreciation						
Balance as at 1 January 2022	-	9,118	13,401	3,335	-	25,854
Charge for the year	-	1,160	1,871	579	-	3,610
Write-off and disposals	-	(141)	(2,027)	(532)	-	(2,700)
Balance 31 December 2022	-	**10,137**	**13,245**	**3,382**	**-**	**26,764**
Net carrying amount						
1 January 2022	**425**	**31,664**	**6,010**	**1,903**	**2,722**	**42,724**
Net carrying amount						
31 December 2022	**5**	**32,209**	**6,675**	**3,431**	**609**	**42,929**

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

a) Movement in property, plant and equipment in thousand HRK (continued)

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2021	425	39,027	17,817	3,719	63	61,051
Additions	-	1,772	1,937	1,677	2,690	8,076
Transfer	-	-	31	-	(31)	-
Write-off and disposals	-	(17)	(374)	(158)	-	(549)
Balance 31 December 2021	**425**	**40,782**	**19,411**	**5,238**	**2,722**	**68,578**
Depreciation						
Balance as at 1 January 2021	-	8,213	11,796	3,242	-	23,251
Charge for the year	-	906	1,927	251	-	3,084
Write-off and disposals	-	(1)	(322)	(158)	-	(481)
Balance 31 December 2021	**-**	**9,118**	**13,401**	**3,335**	**-**	**25,854**
Net carrying amount						
1 January 2021	**425**	**30,814**	**6,021**	**477**	**63**	**37,800**
Net carrying amount						
31 December 2021	**425**	**31,664**	**6,010**	**1,903**	**2,722**	**42,724**

18. Property, plant and equipment and intangible assets (continued)

b) Movement in right-of-use assets thousand HRK

	Leasehold	Motor vehicles	**Total**
Cost			
Balance at 1 January 2022	22,594	1,724	24,318
Additions	9,401	614	10,015
Disposal	(165)	-	(165)
Balance 31 December 2022	**31,830**	**2,338**	**34,168**
Depreciation			
Balance as at 1 January 2022	9,066	517	9,583
Charge for the year	5,010	322	5,332
Disposal	-	-	-
Balance 31 December 2022	**14,076**	**839**	**14,915**
Net carrying amount 1 January 2022	**13,528**	**1,207**	**14,735**
Net carrying amount 31 December 2022	**17,754**	**1,499**	**19,253**

18. Property, plant and equipment and intangible assets (continued)

b) Movement in right-of-use assets thousand HRK

	Leasehold	Motor vehicles	**Total**
Cost			
Balance at 1 January 2021	14,247	495	14,742
Additions	13,068	1,283	14,351
Disposal	(4,721)	(54)	(4,775)
Balance 31 December 2021	**22,594**	**1,724**	**24,318**
Depreciation			
Balance as at 1 January 2021	6,148	343	6,491
Charge for the year	4,563	224	4,787
Disposal	(1,645)	(50)	(1,695)
Balance 31 December 2021	**9,066**	**517**	**9,583**
Net carrying amount 1 January 2021	**8,099**	**152**	**8,251**
Net carrying amount 31 December 2021	**13,528**	**1,207**	**14,735**

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

c) Movement in intangible assets in thousand HRK

	Leasehold improvements	Software	Assets under construction	**Total**
Cost				
Balance at 1 January 2022	12,979	11,679	6,008	30,666
Additions	2,435	1,269	1,931	5,635
Transfer	-	5,749	(5,749)	-
Write off	(2,890)	(127)	-	(3,017)
Balance 31 December 2022	**12,524**	**18,570**	**2,190**	**33,284**
Amortisation				
Balance as at 1 January 2022	10,453	7,561	-	18,014
Charge for the year	1,227	2,736	-	3,963
Write off	(2,852)	(127)	-	(2,979)
Balance 31 December 2022	**8,828**	**10,170**	**-**	**18,998**
Net carrying amount 1 January 2022	**2,526**	**4,118**	**6,008**	**12,652**
Net carrying amount 31 December 2022	**3,696**	**8,400**	**2,190**	**14,286**

Assets in preparation is related to Core system improvements and investment into new business application for managing the financing process.

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

c) Movement in intangible assets in thousand HRK (continued)

	Leasehold improvements	Software	Assets under construction	**Total**
Cost				
Balance at 1 January 2021	10,940	10,332	3,595	24,867
Additions	2,186	50	3,849	6,085
Transfer	128	1,308	(1,436)	-
Write off	(275)	(11)	-	(286)
Balance 31 December 2021	**12,979**	**11,679**	**6,008**	**30,666**
Amortisation				
Balance as at 1 January 2021	10,204	5,682	-	15,886
Charge for the year	520	1,889	-	2,409
Write off	(271)	(10)	-	(281)
Balance 31 December 2021	**10,453**	**7,561**	**-**	**18,014**
Net carrying amount 1 January 2021	**736**	**4,650**	**3,595**	**8,981**
Net carrying amount 31 December 2021	**2,526**	**4,119**	**6,008**	**12,653**

Notes to the financial statements (continued)

19. Foreclosed assets

	31 December 2022 *HRK 000*	31 December 2021 *HRK 000*
Properties acquired in exchange for uncollectible receivables	654	661
TOTAL	**654**	**661**

The book value of the foreclosed assets approximates the fair value of these assets.

20. Other assets

	31 December 2022 *HRK 000*	31 December 2021 *HRK 000*
Receivables for fees and commissions	2,451	1,954
Prepaid expenses	1,993	1,529
Receivables for advances	1,087	1,007
Receivables from customers	65	105
Other receivables	1,954	4,836
Impairment allowance	(1,291)	(1,159)
TOTAL	**6,259**	**8,272**

The decrease in other receivables is mainly related to the decrease in receivables on the basis of formed orders for NKS in the amount of HRK 3 million.

a) Movement in impairment allowance against other assets

	2022 *HRK 000*	2021 *HRK 000*
Balance at 1 January	**1,159**	**1,487**
Charge	239	152
Reversal	(66)	(48)
Net charge recognized in profit or loss (Note 7)	*173*	*104*
Write off	(41)	(432)
Balance at 31 December	**1,291**	**1,159**

Notes to the financial statements (continued)

21. Current accounts and deposits and interest-bearing borrowings

a) Current accounts and deposits from banks and financial institutions

HRK 000

			31 December 2022			31 December 2021
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Term deposits	77,488	27,141	**104,629**	83,929	46,921	**130,850**
Current accounts	3,791	30,212	**34,003**	3,832	492	**4,324**
TOTAL	**81,279**	**57,353**	**138,632**	**87,761**	**47,413**	**135,174**

b) Current accounts and deposits from customers

ba) Current accounts from customers

HRK 000

			31 December 2022			31 December 2021
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Corporate	516,094	455,545	**971,639**	439,990	178,119	**618,109**
Retail	259,239	347,489	**606,728**	136,847	323,015	**459,862**
State and other institutions	48,444	26,646	**75,090**	6,978	948	**7,926**
Total current accounts	823,777	829,680	**1,653,457**	**583,815**	**502,082**	**1,085,897**

bb) Term deposits from customers

HRK 000

			31 December 2022			31 December 2021
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	239,957	858,617	**1,098,574**	255,172	864,476	**1,119,648**
Corporate	206,633	166,500	**373,133**	191,789	115,947	**307,736**
State and other institutions	1,724	13	**1,737**	4,339	6	**4,345**
Total term deposits	448,314	1,025,130	**1,473,444**	**451,300**	**980,429**	**1,431,729**

21. Current accounts and deposits and interest-bearing borrowings (continued)

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and term deposits from customers

HRK 000

			31 December 2022			31 December 2021
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	499,196	1,206,106	**1,705,302**	392,019	1,187,491	**1,579,510**
Corporate	722,727	622,045	**1,344,772**	631,779	294,066	**925,845**
State and other institutions	50,168	26,659	**76,827**	11,317	954	**12,271**
TOTAL	1,272,091	1,854,810	**3,126,901**	**1,035,115**	**1,482,511**	**2,517,626**

c) Interest-bearing borrowings

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Repo loan	206,281	205,720
Borrowings from Croatian Bank for Reconstruction and Development	63,290	67,347
TOTAL	**269,571**	**273,067**

Repo loans are contracted with original maturity up to five years with interest rate 0,25% (2021: up to five years with interest rate 0,25%). Domestic bonds are used as collateral (note 15a).

d) Net cash from financing activities

	1 January 2022	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2022
Short-term loans	(272,348)	4,019	39	-	-	(268,290)
Long-term loans	(719)	(523)	(39)	-	-	(1,281)
Lease liabilities	(15,189)	(4,569)	-	-	-	(19,758)
Total liabilities	**(288,256)**	**(1,073)**	**-**	**-**	**-**	**(289,329)**

21. Current accounts and deposits and interest-bearing borrowings (continued)

d) Net cash from financing activities (continued)

	1 January 2021	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2021
Short-term loans	(269,087)	(3,197)	(64)	-	-	(272,348)
Long-term loans	(59,362)	58,579	64	-	-	(719)
Lease liabilities	(8,418)	4,473	-	-	(11,244)	(15,189)
Total liabilities	**(336,867)**	**59,855**	**-**	**-**	(11,244)	**(288,256)**

22. Provisions for liabilities and charges

	31 December 2022	31 December 2021
	HRK 000	***HRK 000***
Provisions for off-balance-sheet exposure to credit risk (Note 26)	6,666	3,291
Provisions for legal cases initiated against the Bank	220	213
TOTAL	**6,886**	**3,504**

Movements in provisions are included in the analysis in Note 7 Impairment losses and provisions and are recognized in profit or loss.

a) Movements in provisions for legal cases initiated against the Bank:

	2022	2021
	HRK 000	***HRK 000***
Balance at 1 January	**213**	**206**
Increase in provisions	7	7
Release of unused amounts	-	-
Net charge recognized in profit or loss (Note 7)	7	7
Used during year	-	-
Balance at 31 December	**220**	**213**

22. Current accounts and deposits and interest-bearing borrowings (continued)

b) Movements in provisions for identified losses on off-balance-sheet exposure to credit risk

	2022	2021
	HRK 000	*HRK 000*
Balance at 1 January	**3,291**	**2,271**
Charge for off-balance sheet provisions recognised in profit or loss (Note 7)	3,370	1,020
Write offs	5	-
Balance at 31 December	**6,666**	**3,291**

23. Other liabilities

	31 December 2022	31 December 2021
	HRK 000	*HRK 000*
Liabilities for loan prepayments	34,887	12,753
Liabilities for leasing	19,759	15,189
Liabilities for closed accounts	18,408	18,798
Liabilities to employees	9,193	8,178
Liabilities to suppliers	3,196	2,711
Liabilities for taxes and contributions	231	503
Other liabilities	8,391	7,866
TOTAL	**94,065**	**65,998**

Liabilities for closed accounts represents accounts that are being closed due to customers death or customers who are not being evaluated under the Anti-Money Laundering Act. The most significant items of other liabilities refer to collected revenues from fees for overdraft faclitites in the amount of HRK 1,486 thousand and card liabilities in the amount of HRK 1,326 thousand.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022	2021
	HRK 000	*HRK 000*
Balance at 1 January 2021	**15,189**	**8,418**
Additions	9,849	15,112
Interest	172	141
Payments	(5,290)	(4,473)
Disposals	(161)	(4,009)
Balance at 31 December 2021	**19,759**	**15,189**

24. Equity

	31 December 2022 *HRK 000*	31 December 2021 *HRK 000*
Ordinary share capital (Note 24a)	390,237	352,522
Legal and capital reserves (Note 24b)	2,872	2,453
Retained earnings	39,609	8,375
Fair value reserve (Note 24c)	-	375
TOTAL	**432,718**	**363,725**

a) Ordinary share capital

Ordinary share capital amounts to HRK 390,237 thousand (31 December 2021: HRK 352,522 thousand) and is divided into 102,694 ordinary shares (31 December 2021: 92,769 shares) with a nominal value of HRK 3,800,00 each.

The shareholder structure was as follows:

Shareholder	ISIN	Number of ordinary shares at 31 December 2022	% of the ordinary share capital	Number of ordinary shares at 31 December 2021	% of the ordinary share capital
SÜZER HOLDING A.S.	BRBA-R-A	102,694	100,00	92,769	100,00
TOTAL		**102,694**	**100,00**	**92,769**	**100,00**

b) Legal and capital reserves

Legal reserves represent accumulated transfers from retained earnings in accordance with the Croatian Company Law, which stipulates that a minimum of 5% of current profits is transferred to undistributable legal reserves, until such reserves along with other capital reserves reach a minimum of 5% of the issued capital. The legal reserve can be used for covering losses from previous years if the losses are not covered from the profit of the current year, or if there are no other available reserves.

	31 December 2022 *HRK 000*	31 December 2021 *HRK 000*
Legal reserves	2,556	2,137
Capital reserves	316	316
TOTAL	**2,872**	**2,453**

24. Equity (continued)

c) Fair value reserve

Fair value reserve doesn’t have any balance at 31.12.2022 (2021: HRK 375 thousand). Deferred tax asset is derecognized in the amount of HRK 2,086 thousand as at 31 December 2022 (2021: 2,086 thousand).

During the year HRK 2,528 thousand was realized to profit or loss (Note 9a) (2021: HRK 3,311 thousand).

	2022	2021
	HRK 000	***HRK 000***
Balance at 1 January	**375**	**10,950**
Gross fair value reserve at 1 January	(2,171)	12,953
Deferred tax	2,086	(2,086)
Accumulated impairment	460	82
Net gains/(losses) from change in fair value of financial assets at fair value through other comprehensive income	3,620	(9,809)
Deferred tax (charge)/gain on net losses from change in fair value of financial assets at fair value through other comprehensive income	651	2,086
Net gains on disposal of financial assets at fair value through other comprehensive income - transfer to income statement	(2,528)	(3,311)
Net impairment charge recognised in profit or loss	-	460
Gross fair value reserve change	-	(13,121)
Deferred tax change	-	2,086
Impairment allowance change	-	460
Fair value reserve reversal due to reclassification	(2,118)	-
Balance at 31 December	**-**	**375**

25. Related parties transactions

The Bank considers that it has an immediate related-party relationship with its key shareholders and their direct and indirect subsidiaries, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"), close family members of key management personnel, and entities controlled by key management personnel or their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures".

The majority owner of the Bank is Süzer Holding Anonim Sirketi which is headquartered in Turkey, The Bank entered into banking transactions with the majority owner during the year, generating income and expense for the year, and assets and liabilities at year end.

Related party transactions as at and for the year ended 31 December 2022 and 31 December 2021 were as follows:

SÜZER HOLDING	**31 December 2022**	**31 December 2021**
	HRK 000	***HRK 000***
Loans to and receivables from customers	-	85
Other receivables	2	-
	2	**85**
Received deposits		
Current accounts	343	577
Term deposits	36,629	7,194
Other liabilities (off balance for credit cards)	2,370	2,221
	39,342	**9,992**

SÜZER HOLDING	**2022**	**2021**
	HRK 000	***HRK 000***
Interest income on loans to and receivables from customers	7	1
Other income	6	5
	13	**6**
Expenses on received deposits		
Current accounts	-	(4)
Term deposits	(452)	(6)
	(452)	**(10)**

Notes to the financial statements (continued)

25. Related parties transactions (continued)

Key management personnel	**31 December 2022**	**31 December 2021**
	HRK 000	***HRK 000***
Loans to and receivables from customers	4,208	3,243
Other receivables	-	-
	4,208	**3,243**
Received deposits		
Current accounts	1,887	2,563
Term deposits	4,927	1,766
Other liabilities (Off balance for credit cards)	349	399
	7,163	**4,728**

	2022	**2021**
	HRK 000	***HRK 000***
Interest income on loans to and receivables from customers	127	109
Other income	14	13
	141	**122**
Expenses on received deposits		
Term deposits	(9)	(9)
	(9)	**(9)**

Compensation to key management personnel was:

	2022	**2021**
	HRK 000	***HRK 000***
- Net salaries to key management personnel	8,688	8,232
- Contributions, taxes and surtaxes from salaries	2,048	1,963
- Contributions on salaries	4,700	4,471
- Other	123	111
	15,559	**14,777**

The key management personnel in the Bank are the members of the Management and Supervisory Board, procurators and executive directors and other senior management. The expense of contributions paid to mandatory pension funds in the year ended 31 December 2022 for key management personnel amounted to HRK 2,014 thousand (for year ended 31 December 2021: HRK 1,898 thousand).

Total amount of management compensation is related to salary paid and benefit in kind on the monthly basis and it does not include long-term or bonus arrangements or termination rights.

26. Contingencies and commitments

Commitments include guarantees and unused overdraft facilities on current accounts of retail customers.

				31 December 2022
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Issued guarantees and letter of intent	718,859	47,849	3,243	769,951
Issued letters of credit	183	-	-	183
Unused overdraft facilities	374,313	6,246	60	380,619
TOTAL	**1,093,355**	**54,095**	**3,303**	**1,150,753**
Provisions for off-balance-sheet exposure to credit risk (Note 22)	(4,544)	(511)	(1,611)	(6,666)
TOTAL	**1,088,811**	**53,584**	**1,692**	**1,144,087**

				31 December 2021
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Issued guarantees and letter of intent	500,196	-	-	500,196
Issued letters of credit	157	-	-	157
Unused overdraft facilities	216,549	73	34	216,656
TOTAL	**716,902**	**73**	**34**	**717,009**
Provisions for off-balance-sheet exposure to credit risk (Note 22)	(3,268)	(3)	(20)	(3,291)
TOTAL	**713,634**	**70**	**14**	**713,718**

Notes to the financial statements (continued)

27. Maximum exposure to credit risk and concentration of credit risk

a) Maximum exposure to credit risk

	Note	31 December 2022	31 December 2021
		HRK 000	*HRK 000*
Current accounts with the CNB and other banks	12	935,830	575,340
Obligatory reserve with the CNB and compulsory CNB bills	14	-	142,900
Placements with other banks	16	57,465	37,747
Debt securities at fair value through other comprehensive income	15a)	-	644,975
Financial investments at amortised cost	15b)	664,953	27,221
Financial assets held for trading	15c)	13,227	-
Loans to and receivables from customers	17a)	2,277,423	1,814,976
Income tax prepayment		-	-
Other assets	20	4,266	6,743
Total exposure to credit risk from balance-sheet items		**3,953,164**	**3,249,902**
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees and letters of intent	26	766,775	498,095
Letters of credit	26	182	156
Unused overdraft facilities	26	377,130	215,467
Total exposure to credit risk from off-balance-sheet items		**1,144,087**	**713,718**
TOTAL		**5,097,251**	**3,963,620**

b) Concentration of credit risk

Concentration of credit risk towards State and local authorities

	Note	31 December 2022	31 December 2021
		HRK 000	*HRK 000*
Current account with the CNB	12	905,715	469,684
Obligatory reserve with the CNB and compulsory CNB bills	14	-	142,971
Treasury bills issued by Ministry of Finance at fair value through other comprehensive income	15a)	-	90,255
Bonds issued by Republic of Croatia at fair value through other comprehensive income	15a)	-	421,041
Financial investments at amortised cost	15b)	295,746	10,704
Income tax prepayment		-	-
Other receivables		138	188
Impairment allowance		(201)	(781)
TOTAL		**1,201,398**	**1,134,062**

27. Maximum exposure to credit risk and concentration of credit risk (continued)

The impairment allowance presented in the above table relates to expected credit losses calculated on the related balances, which is in these financial statements offset against loans to and receivables from customers and is presented for illustrative purpose only.

Apart from exposures towards state and local authorities, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2022 amounted to HRK 89,349 thousand (2021: HRK 58,823 thousand).

28. Credit portfolio quality

The Bank applies an internal system of assessment of portfolio quality based on the assessment system prescribed by the CNB. The tables below present the credit quality by class of financial asset and ageing analysis of due outstanding receivables.

Collateral and other security instruments

The amount and type of the necessary collateral depends on the assessment of counterparty credit risk. The Bank has defined guidelines for acceptance of the type of collateral and evaluation of collateral.

Basic types of collateral are:

- Deposits
- Mortgages over real estate
- Charges over movable property
- Guarantees.

In the following tables, category other customers and companies from note 17 are included within corporate.

28. Credit portfolio quality (continued)

	As at 31 December 2022				
	Neither past due nor impaired				
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Specifically impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	935,830	-	-	**935,830**
Financial investments at amortised cost (Note 15b)	-	664,953	-	-	**664,953**
Financial assets held for trading (Note 15c)	-	13,227	-	-	**13,227**
Placements with other banks (Note 16)	-	57,465	-	-	**57,465**
Loans to and receivables from customers (Note 17a)	**-**	**2,232,944**	**9,345**	**35,134**	**2,277,423**
* retail	-	1,182,453	5,013	26,237	**1,213,703**
* corporate and other	-	1,050,491	4,332	8,897	**1,063,720**
Other assets	-	4,266	-	-	**4,266**
TOTAL	**-**	**3,908,685**	**9,345**	**35,134**	**3,953,164**

	As at 31 December 2021				
	Neither past due nor impaired				
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Specifically impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	575,340	-	-	**575,340**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	142,900	-	-	**142,900**
Debt securities at fair value through other comprehensive income (Note 15a)	-	644,975	-	-	**644,975**
Financial investments at amortised cost (Note 15b)	-	27,221	-	-	**27,221**
Placements with other banks (Note 16)	-	37,747	-	-	**37,747**
Loans to and receivables from customers (Note 17a)	**-**	**1,773,304**	**6,442**	**35,230**	**1,814,976**
* retail	-	772,778	2,409	11,317	**786,504**
* corporate and other	-	1,000,526	4,033	23,913	**1,028,472**
Other assets	-	6,743	-	-	**6,743**
TOTAL	**-**	**3,208,230**	**6,442**	**35,230**	**3,249,902**

28. Credit portfolio quality (continued)

Gross exposure (per Stages)				31 December 2022 HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current accounts with the CNB and other banks	936,283	-	-	**936,283**
Obligatory reserve with the CNB and compulsory CNB bills	-	-	-	**-**
Placements with other banks	57,496	-	10,221	**67,717**
Financial assets at fair value through other comprehensive income	-	-	-	**-**
Financial investments at amortised cost	652,721	14,346	-	**667,067**
Financial assets held for trading	13,227	-	-	**13,227**
Loans to and receivables from customers	**2,137,288**	**126,934**	**98,116**	**2,362,338**
Other assets	4,320	44	1,535	**5,899**
Total exposure to credit risk from balance-sheet items	**3,801,355**	**141,324**	**109,872**	**4,052,531**
Exposure to credit risk from off balance sheet items is as follows:				
Guarantees and letters of intent	718,859	47,849	3,243	769,951
Letters of credit	183	0	0	183
Unused overdraft facilities	374,313	6,246	60	380,619
Total exposure to credit risk from off balance-sheet items	**1,093,355**	**54,095**	**3,303**	**1,150,753**
Total exposure to credit risk from balance and off balance-sheet items	**4,894,690**	**195,419**	**113,175**	**5,203,284**

28. Credit portfolio quality (continued)

Gross exposure (per Stages)				31 December 2021 *HRK 000*
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current accounts with the CNB and other banks	575,575	-	-	**575,575**
Obligatory reserve with the CNB and compulsory CNB bills	142,971	-	-	**142,971**
Placements with other banks	37,781	-	10,221	**48,002**
Debt securities at fair value through other comprehensive income	644,975	-	-	**644,975**
Financial investments at amortised cost	27,221	-	-	**27,221**
Loans to and receivables from customers	1,596,924	207,806	99,878	**1,904,608**
Other assets	6,837	13	1,052	**7,902**
Total exposure to credit risk from balance-sheet items	**3,032,284**	**207,819**	**111,151**	**3,351,254**
Exposure to credit risk from off balance sheet items is as follows:				
Guarantees and letters of intent	500,196	-	-	**500,196**
Letters of credit	157	-	-	**157**
Unused overdraft facilities	216,549	73	34	**216,656**
Total exposure to credit risk from off balance-sheet items	**716,902**	**73**	**34**	**717,009**
Total exposure to credit risk from balance and off balance-sheet items	**3,749,186**	**207,892**	**111,185**	**4,068,263**

Notes to the financial statements (continued)

28. Credit portfolio quality (continued)

Collateral and other credit enhancements held

The table below sets out the carrying amount of secured exposures and the value of identifiable collateral (mainly residential and commercial property) held against loans and advances to customers measured at amortised cost. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against:

	Carrying amount HRK 000	31 December 2022 Collateral HRK 000	Carrying amount HRK 000	31 December 2021 Collateral HRK 000
Loans and advances to customers at amortised cost				
Corporate				
Stage 1 and Stage 2	1,038,528	472,191	697,433	299,267
Stage 3	26,121	16,063	31,208	16,389
	1,064,649	**488,254**	**728,641**	**315,656**
Retail				
Stage 1 and Stage 2	858,643	469,468	585,648	344,855
Stage 3	4,311	2,160	24,397	5,498
	862,954	**471,628**	**610,045**	**350,353**
Total	**1,927,603**	**959,882**	**1,338,686**	**666,009**

The table below show the market value of collateral:

Type of collateral	**Market value of collateral**	
HRK 000	**31.12.2022**	**31.12.2021**
Commercial property	407,049	321,700
Cash deposits	146,360	73,081
Movable property	5,055	3,892
Other types of collateral	41,068	6,424
Residential property	360,350	260,912
Total	**959,882**	**666,009**

Assets obtained by taking possession of collateral

Bank had realized new repossessions in amount of 6 thousand of assets in order to settle existing exposures during 2022 therefore the balance of the repossessed assets at the end of 2022 was 1,2 million HRK gross book value or 0,6 million HRK net book value.

Notes to the financial statements (continued)

29. Maturity profile of assets and liabilities

Assets and liabilities are allocated within time buckets according to their remaining contractual maturity period. Obligatory reserve is analyzed according to the time buckets of the funds representing the base for its calculation. Other items without contractual maturity are presented in the bucket over 3 years.

As at 31 December 2022 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	975,091	-	-	-	-	**975,091**
Financial investments at amortised cost	85	38,828	109,705	213,842	302,493	**664,953**
Financial investments held for trading	-	13,227	-	-	-	**13,227**
Loans to and receivables from customers	124,395	153,840	329,909	527,275	1,142,004	**2,277,423**
Placements with other banks	43,201	12,004	2,260	-	-	**57,465**
Property, plant and equipment	-	-	-	-	42,929	**42,929**
Right of use assets	456	912	3,726	9,088	5,071	**19,253**
Intangible assets	-	-	-	-	14,286	**14,286**
Foreclosed assets	-	-	-	-	654	**654**
Other assets	6,259	-	-	-	-	**6,259**
TOTAL ASSETS	**1,149,487**	**218,811**	**445,600**	**750,205**	**1,507,437**	**4,071,540**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	46,027	26,138	29,462	37,005	-	**138,632**
Current accounts and deposits from customers	1,719,103	280,242	564,253	458,291	105,012	**3,126,901**
Interest-bearing borrowings	155	1,881	9,076	220,796	37,663	**269,571**
Provisions for liabilities and charges	-	-	-	-	6,886	**6,886**
Income tax liability	-	-	2,780	-	-	**2,780**
Lease liability	452	928	3,807	9,420	5,152	**19,759**
Other liabilities	74,293	-	-	-	-	**74,293**
TOTAL LIABILITIES	**1,840,030**	**309,189**	**609,378**	**725,512**	**154,713**	**3,638,822**
EQUITY						
Ordinary share capital	-	-	-	-	390,237	**390,237**
Legal and other reserves	-	-	-	-	2,872	**2,872**
Retained earnings	-	-	-	-	39,609	**39,609**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**432,718**	**432,718**
TOTAL LIABILITIES AND EQUITY	**1,840,030**	**309,189**	**609,378**	**725,512**	**587,431**	**4,071,540**
MATURITY GAP	**(690,543)**	**(90,378)**	**(163,778)**	**24,693**	**920,006**	**-**
Issued guarantees and letter of intent	102,293	72,851	181,797	225,384	187,626	**769,951**
Issued letters of credit	-	183	-	-	-	**183**
Unused overdraft facilities	63,490	34,755	51,726	106,050	124,598	**380,619**
TOTAL OFF-BALANCE SHEET	**165,783**	**107,789**	**233,523**	**331,434**	**312,224**	**1,150,753**

Notes to the financial statements (continued)

29. Maturity profile of assets and liabilities (continued)

As at 31 December 2021 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	616,677	-	-	-	-	**616,677**
Obligatory reserve with CNB and compulsory CNB bills	65,152	11,226	36,737	24,443	5,342	**142,900**
Financial assets at fair value through other comprehensive income	-	-	90,255	191,368	363,352	**644,975**
Financial investments at amortised cost	5,311	5,697	825	-	15,388	**27,221**
Loans to and receivables from customers	108,844	71,030	238,148	481,895	915,059	**1,814,976**
Placements with other banks	34,968	526	2,253	-	-	**37,747**
Property, plant and equipment	-	-	-	-	42,724	**42,724**
Right of use assets	(1,038)	774	1,704	7,888	5,407	**14,735**
Intangible assets	-	-	-	-	12,652	**12,652**
Foreclosed assets	-	-	-	-	661	**661**
Other assets	8,272	-	-	-	-	**8,272**
TOTAL ASSETS	**838,186**	**89,253**	**369,922**	**705,594**	**1,360,585**	**3,363,540**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	41,641	21,058	47,993	24,482	-	**135,174**
Current accounts and deposits from customers	1,167,849	187,344	634,001	429,269	99,163	**2,517,626**
Interest-bearing borrowings	157	598	6,485	17,633	248,194	**273,067**
Provisions for liabilities and charges	-	-	-	-	3,504	**3,504**
Income tax liability	-	-	4,446	-	-	**4,446**
Lease liability	(1,053)	770	1,690	8,167	5,615	**15,189**
Other liabilities	50,809	-	-	-	-	**50,809**
TOTAL LIABILITIES	**1,259,403**	**209,770**	**694,615**	**479,551**	**356,476**	**2,999,815**
EQUITY						
Ordinary share capital	-	-	-	-	352,522	**352,522**
Legal and other reserves	-	-	-	-	2,453	**2,453**
Fair value reserve	-	33	1	745	(404)	**375**
Retained earnings	-	-	-	-	8,375	**8,375**
TOTAL EQUITY	**-**	**33**	**1**	**745**	**362,946**	**363,725**
TOTAL LIABILITIES AND EQUITY	**1,259,403**	**209,803**	**694,616**	**480,296**	**719,422**	**3,363,540**
MATURITY GAP	**(421,217)**	**(120,550)**	**(324,694)**	**225,298**	**641,163**	**-**
Issued guarantees and letter of intent	87,590	75,481	148,844	180,595	7,686	**500,196**
Issued letters of credit	157	-	-	-	-	**157**
Unused overdraft facilities	91,675	9,354	20,999	11,877	82,751	**216,656**
TOTAL OFF-BALANCE SHEET	**179,422**	**84,835**	**169,843**	**192,472**	**90,437**	**717,009**

Notes to the financial statements (continued)

29. Maturity profile of assets and liabilities (continued)

Analysis of undiscounted cash flow of financial liabilities by remaining contracted amounts:

As at 31 December 2022 ***HRK 000***

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
LIABILITIES						
Current accounts and deposits from banks and financial institutions	46,027	26,138	29,462	37,005	-	**138,632**
Current accounts and deposits from customers	1,719,103	280,242	564,253	458,291	105,012	**3,126,901**
Interest-bearing borrowings	155	1,881	9,076	220,796	37,663	**269,571**
Provisions for liabilities and charges	-	-	-	-	6,886	**6,886**
Income tax liability	-	-	2,780	-	-	**2,780**
Lease liability	452	928	3,807	9,420	5,152	**19,759**
Other liabilities	74,293	-	-	-	-	**74,293**
TOTAL LIABILITIES	**1,840,030**	**309,189**	**609,378**	**725,512**	**154,713**	**3,638,822**
OFF-BALANCE SHEET	**165,783**	**107,789**	**233,523**	**331,434**	**312,224**	**1,150,753**

As at 31 December 2021 ***HRK 000***

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
LIABILITIES						
Current accounts and deposits from banks and financial institutions	41,641	21,058	47,993	24,482	-	**135,174**
Current accounts and deposits from customers	1,167,849	187,344	634,001	429,269	99,163	**2,517,626**
Interest-bearing borrowings	157	598	6,485	17,633	248,194	**273,067**
Provisions for liabilities and charges	-	-	-	-	3,504	**3,504**
Income tax liability	-	-	4,446	-	-	**4,446**
Lease liability	(1,053)	770	1,690	8,167	5,615	**15,189**
Other liabilities	50,809	-	-	-	-	**50,809**
TOTAL LIABILITIES	**1,259,403**	**209,770**	**694,615**	**479,551**	**356,476**	**2,999,815**
OFF-BALANCE SHEET	**179,422**	**84,835**	**169,843**	**192,472**	**90,437**	**717,009**

30. Exposure to foreign currency risk

Foreign currency structure of the balance sheet is presented in the following tables:

As at 31 December 2022 *HRK 000*

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	131,425	5,237	2,428	6,767	829,234	**975,091**
Financial investments at amortised cost	364,066	107,274	-	-	193,613	**664,953**
Financial investments held for trading	-	13,227	-	-	-	**13,227**
Loans to and receivables from customers	1,354,725	15,177	240	(32)	907,313	**2,277,423**
Placements with other banks	2,787	23,306	19,895	-	11,477	**57,465**
Property, plant and equipment	-	-	-	-	42,929	**42,929**
Right of use assets	-	-	-	-	19,253	**19,253**
Intangible assets	-	-	-	-	14,286	**14,286**
Foreclosed assets	-	-	-	-	654	**654**
Other assets	-	-	-	-	6,259	**6,259**
TOTAL ASSETS	**1,853,003**	**164,221**	**22,563**	**6,735**	**2,025,018**	**4,071,540**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	57,329	24	-	-	81,279	**138,632**
Current accounts and deposits from customers	1,656,854	164,361	21,154	5,765	1,278,767	**3,126,901**
Interest-bearing borrowings	-	-	-	-	269,571	**269,571**
Provisions for liabilities and charges	-	-	-	-	6,886	**6,886**
Income tax liability	-	-	-	-	2,780	**2,780**
Lease liability	-	-	-	-	19,759	**19,759**
Other liabilities	-	-	-	-	74,293	**74,293**
TOTAL LIABILITIES	**1,714,183**	**164,385**	**21,154**	**5,765**	**1,733,335**	**3,638,822**
EQUITY						
Ordinary share capital	-	-	-	-	390,237	**390,237**
Legal and other reserves	-	-	-	-	2,872	**2,872**
Retained earnings	-	-	-	-	39,609	**39,609**
TOTAL EQUITY	-	-	-	-	**432,718**	**432,718**
TOTAL LIABILITIES AND EQUITY	**1,714,183**	**164,385**	**21,154**	**5,765**	**2,166,053**	**4,071,540**
NET ASSETS/ LIABILITIES AND EQUITY	**138,820**	**(164)**	**1,409**	**970**	**(141,035)**	**-**

30. Exposure to foreign currency risk (continued)

As at 31 December 2021 *HRK 000*

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	248,737	6,167	17,455	20,732	323,586	**616,677**
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	142,900	**142,900**
Financial assets at fair value through other comprehensive income	208,770	71,574	-	-	364,631	**644,975**
Financial investments at amortised cost	16,518	-	-	-	10,703	**27,221**
Loans to and receivables from customers	1,030,793	2,353	630	(83)	781,283	**1,814,976**
Placements with other banks	23,808	13,939	-	-	-	**37,747**
Property, plant and equipment	-	-	-	-	42,724	**42,724**
Right of use assets	-	-	-	-	14,735	**14,735**
Intangible assets	-	-	-	-	12,652	**12,652**
Foreclosed assets	-	-	-	-	661	**661**
Other assets	-	-	-	-	8,372	**8,372**
TOTAL ASSETS	**1,528,626**	**94,033**	**18,085**	**20,649**	**1,702,147**	**3,363,540**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	47,412	-	-	-	87,762	**135,174**
Current accounts and deposits from customers	1,352,905	94,307	16,901	18,391	1,035,122	**2,517,626**
Interest-bearing borrowings	-	-	-	-	273,067	**273,067**
Provisions for liabilities and charges	-	-	-	-	3,504	**3,504**
Income tax liability	-	-	-	-	4,446	**4,446**
Other liabilities	-	-	-	-	65,998	**65,998**
TOTAL LIABILITIES	**1,400,317**	**94,307**	**16,901**	**18,391**	**1,469,899**	**2,999,815**
EQUITY						
Ordinary share capital	-	-	-	-	352,522	**352,522**
Legal and other reserves	-	-	-	-	2,453	**2,453**
Fair value reserve	-	-	-	-	375	**375**
Retained earnings	-	-	-	-	8,375	**8,375**
TOTAL EQUITY	-	-	-	-	**363,725**	**363,725**
TOTAL LIABILITIES AND EQUITY	**1,400,317**	**94,307**	**16,901**	**18,391**	**1,833,624**	**3,363,540**
NET ASSETS/ LIABILITIES AND EQUITY	**128,309**	**(274)**	**1,184**	**2,258**	**(131,477)**	**-**

Notes to the financial statements (continued)

30. Exposure to foreign currency risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The table below represents sensitivity of the profit or loss to exchange rate fluctuations. The effect of exchange rate fluctuations is presented using highest daily EURHRK volatility and calculating the impact on the biggest long and short open EUR currency position, as follows:

Currency risk	2022	2021
Maximum overall open foreign currency position including options (% of the regulatory capital)	49.36%	52.71%
Open FX position including options in EUR (% of the regulatory capital)	48.62%	51.92%
Impact (loss) of the highest daily EUR/HRK volatility (in thousands HRK)	-458	-375

Considering the entry of the Republic of Croatia into the Eurozone on January 1, 2023, this risk no longer represents a significant impact on the Bank's financial position.

31. Exposure to interest-rate risk

The following table shows sensitivity of Bank equity (economic value) to reasonable interest rate movements (parallel shift), on condition that all other variables are constant. The sensitivity presented below is prepared based on methodology used to prepare sensitivity report “EVKI” as reported to regulator (Croatian National Bank).

Key risk indicators - banking book (HRK ‘000)	31.12.2022	31.12.2021	Reg limit
▲ EVE regulatory shocks (parallel shift +-200bp)	-11,321	-3,643	
▲ EVE regulatory shocks / Regulatory capital	2.81%	1.09%	20%
▲ EVE 6 additional scenarios	-24,141	-15,008	
▲ EVE 6 additional scenarios / T1 capital	5,99%	4.47%	15%
Impact of +100bp interest rate change on net interest income (in 12m)	17,158	6,282	

Regulatory shocks +200 and -200 ▲ EVE (HRK ‘000)	31.12.2022	31.12.2021
Parallel shift +200bp	-11,321	-3,643
Parallel shift -200bp	-6.983	1,534
Max negative effect	-11,321	-3,643
Max negative effect (ABS) / Regulatory capital	2.81%	1.09%

6 additional scenarios ▲ EVE (HRK ‘000)	31.12.2022	31.12.2021
Parallel up	(9,010)	(5,193)
Parallel down	(12,074)	1,534
Steepener	(17,270)	(15,008)
Flattener	9,597	6,937
Short up	9,712	5,243
Short down	(24.141)	(1,969)
Max negative effect	(24,141)	(15,008)
Max negative effect (ABS) / T1 capital	5.99%	4.47%

31. Exposure to interest-rate risk (continued)

Analysis by type of interest rate

	As at 31 December 2022		As at 31 December 2021	
	Interest rate type			
	Fixed	Variable	Fixed	Variable
Assets	46.98%	53.02%	39.79%	60.21%
Liabilities	70.65%	29.35%	70.57%	29.43%

Average effective interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year calculated on average quarterly balances for the Bank are as follows:

	2022 Effective interest rate	2021 Effective interest rate
Cash and current accounts with banks	(0.11%)	(0.18%)
Obligatory reserve with the CNB	-	-
Placements with other banks	1.11%	0.00%
Financial assets at fair value through other comprehensive income	0.07%	1.38%
Financial assets at amortised cost	6.42%	5.64%
Financial investments held for trading	0.05%	-
Loans to and receivables from customers	4,51%	4.90%
Current accounts and deposits from banks and financial institutions	0.33%	0.35%
Current accounts from customers	0.08%	0.05%
Term deposits from customers	0.39%	0.44%
Interest–bearing borrowings	0.47%	0.42%

Notes to the financial statements (continued)

32. Risk and capital management

Note 32 complements notes 27 to 31, whereby note 32 provides general risk management policies and principles, notes 27 to 31 provide quantitative disclosures of exposure to various risks.

a) Financial risk management

The operations of the Bank are exposed to various types of risk, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize the risks. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of change of interest rates, risk of change of foreign exchange rates and change of market value of securities.

b) Credit risk

Credit risk is the most significant type of risk to which the Bank is exposed in its operations,. Credit risk arises from the inability of the other party to service their liabilities as they fall due. The Bank monitors the exposure to credit risk and the quality of the portfolio on a regular basis.

Credit risk management is principally implemented through the selection of customers with good credit-standing and seeking adequate collateral.

In granting placements, the quality, i,e creditworthiness of the customer, is the main criteria. The Bank additionally reduces exposure to credit risk by securing placements with collateral. The Bank has established a Risk Assessment and Measurement Unit (in charge of regular credit risk management and monitoring. Risk Management Department also participates in the process of granting all significant placements, as well as in the process of approving the Bank's lending policies.

In measurement of credit risk of loans and advances to customers and banks, the Bank uses three major factors:

(i) the creditworthiness;
(ii) regular settlement of contractual obligations;
(iii) the quality of collateral, as explained below.

i) The Bank assesses creditworthiness through the calculation of the Debt service coverage ratio (DSCR), which represents the ratio of the available cash for the repayment of financial liabilities and amount of financial liabilities to be repaid on a monthly and/or annual basis.
In the context of creditworthiness assessment internal rating, calculated through an internal rating tool based on key financial indicators, is used as indicator of the Client's quality.

ii) Settlement of obligations means payment of all obligations within contractual maturities, without establishing a new receivable.

(iii) The quality of the collateral is determined by marketability, protection of legal documentation and the possibility of enforcing collection.

32. Risk and capital management (continued)

b) Credit risk (continued)

The Bank structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower and a group of related parties, and industrial segments. Limits on the level of credit risk by industry sectors are regularly reviewed.

Exposure to credit risk is also managed by regular analysis of the ability of borrowers and potential borrowers to meet all obligations to the Bank and by changing lending limits where appropriate. The assessment of possible losses is monitored on a regular basis to enable timely identification of such placements and calculation of impairment losses.

The war in Ukraine, which began in February 2022, did not have a significant direct impact on the Bank, given that the Bank has no significant direct exposure to Ukraine and Russia. Accordingly, there were no additional impairments on this basis. However, the spillover effects of the conflict were reflected in inflationary pressures, the growth of interest rates and negative predictions regarding the further growth of the economy. Indirect exposure is regularly monitored and there is currently no expectation of major deterioration or impact.

c) Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to settle its liabilities as they fall due, and finance or liquidate assets on the basis of acceptable prices.

In order to ensure the quality of funding sources, the Bank funds itself from various sources: deposits of retail customers and legal entities, special participations, and share capital, which reduces dependence on only one source, and consequently liquidity risk.

The Bank prepares strategies in order to ensure that the needs of the Bank for cash funds in certain currencies are covered. The Bank's strategy is oriented towards ensuring adequate liquidity level which meets both estimated and unforeseen needs for cash funding. In case of an unforeseen need for cash funds, the Bank could take actions such as control of the Bank's credit activity, withdrawal of the available lines of credit and other necessary measures,

The Bank manages its assets and sources of funding taking into consideration financial flows, cash flows and concentrations, all with the aim of matching the cash inflows and outflows of the Bank. Such management includes the identification of known, expected and potential cash outflows and making different strategies of assets and liabilities management in order to ensure the needs of the Bank for cash inflows, Accordingly, liquidity risk management system includes: assessment and measurement of liquidity risk exposure, setting and monitoring limits as well as reporting on their utilization.

Liquidity risk management is achieved by operational short-term liquidity management and long-term liquidity management.

The Management Board of the Bank is responsible for liquidity risk management.

32. Risk and capital management (continued)

d) Market risk

- *Foreign currency risk* mainly arises from transactions in EUR, USD and CHF, or linked to EUR, USD, CHF and to a lesser extent, other currencies.

Control and mitigation of foreign currency risk is implemented by monitoring foreign currency deposit and simultaneous contracting of loans with foreign currency clause. Foreign currency risk is controlled on a daily basis, according to regulatory, but also internally determined limits of certain currencies. The Bank directs its business activities trying to minimize gaps between assets and liabilities denominated in foreign currency directly or with foreign currency clauses. The Bank manages its assets and liabilities by matching certain foreign currency assets with liabilities in order optimize the risk and profitability relationship due to currency movements.

- *Interest rate risk* is the risk of change of the prices of financial assets at fair value through other comprehensive income as a result of the changes in interest rates. Interest rate risk is controlled through monitoring the interest rate sensitivity of assets and liabilities.

Risk management activities are mainly carried out in the context of the Bank's sensitivity to interest rate changes. Exposure to interest rate risk is the result of mismatch between assets and liabilities, which carry variable and /or fixed rates and / or reprice at a different time and it is monitored using the analysis of mismatch between assets and liabilities.

The objective of interest rate risk management is to ensure an optimal and stable net interest margin. In accordance with its asset and liability management policy, the Bank monitors the mismatch between assets and liabilities in the statement of financial position, using various criteria for possible change of interest rate. The calculation represents the amount of changes in the value of equity resulting from simultaneous changes in interest rates by 200 basis points. The above amout should be within 20% change of economic value of regulatory capital and at 31st December represents 2.81%.

- *Price risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than fluctuations resulting from currency and interest rate), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

e) Capital management

The primary goals of the Bank related to capital management are alignment with all legal capital requirements, by concurrently retaining sufficient capital adequacy for the purpose of supporting business activity, in order to maximise the value for shareholders.

The Bank manages the structure of equity and risks arising from its business activity.

The Bank’s regulatory capital requirements were based on EU Regulation No 575/2013.

In 2022 The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 (“CET1”) capital, which includes ordinary share capital, retained earnings, reserves and loss for the period after adjustment intangible assets.

32. Risk and capital management (continued)

e) Capital management (continued)

The table below summarises the composition of regulatory capital and ratios of the Bank (risk weighted assets have been unaudited as of the date of the issuance of these financial statements):

	Unaudited 31 December 2022 *HRK 000*	Audited 31 December 2021 *HRK 000*
Regulatory capital		
Issued ordinary share capital and preference shares	390,237	352,522
Reserves – legal	2,872	2,453
Retained earnings	23,119	8,375
Adjustment for intangible assets	(13,180)	(11,848)
Value adjustments due to the requirements for prudent valuation	(13)	(645)
Other comprehensive income	0	375
Total regulatory capital	**403,035**	**351,232**
Risk-weighted assets		
Credit risk-weighted assets	2,127,843	1,809,372
Exposure to operational risk	209,525	189,820
Exposure to currency risk	112,923	108,975
Total risk weighted assets	**2,450,291**	**2,108,167**
Common Equity Tier 1 capital ratio	**16.45%**	**16.66%**
Tier 1 capital ratio	**16.45%**	**16.66%**
Total capital adequacy ratio	**16.45%**	**16.66%**

Prescribed minimal capital ratios in accordance with Article 92 of EU Regulation No 575/2013 are as follows:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount,
- Tier 1 capital ratio of 6% of the total risk exposure amount,
- Total capital ratio of 8% of the total risk exposure amount,

In addition to regulatory prescribed minimal capital adequacy ratios and in accordance with Articles 117 and 130 of CNB's Credit Institutions Act and Articles 129 and 133 of CRD IV, the Bank is also obliged to maintain specifically set capital buffers.

The Bank is compliant with the CNB prescribed total capital ratio in both 2022 and 2021.

f) Operational risk management

Operational risk represents risk of loss due to inadequate or unsuccessful internal processes, employees or due to external events.

Responsibility for the implementation of operational risk management system and control of operational risk management at the level of the Bank is assigned to the Risk control function.

33. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Cash and balances with Croatian National Bank

The carrying value of cash and balances with the CNB approximate their fair value due to short-term maturity of these financial instruments.

Placements with other banks

Placements with other banks are stated at amortized cost. The fair value calculated by discounting the expected future cash flows of principal and interest is not significantly different from their book values in light of their short-term maturities.

Loans and advances

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount. The fair value of loans to non-performing customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument. Estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate. Fair value of loans to customers as at 31 December 2022 amounted to HRK 1,882 million (31 December 2021: HRK 1,869 million). The fair value of loans and advances is based on valuation models and is categorised as Level 3.

Financial investments at amortised cost

The fair value of financial investments at amortised as at 31 December 2022 amounted to HRK 607 million.

Deposits from banks and customers

For demand deposits, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. There is no significant difference between the fair value of these deposits and their carrying value.

Interest-bearing borrowings

There is no significant difference between carrying and fair value.

33. Fair values (continued)

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly (indicative prices in active markets)
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfers between levels in 2022 and 2021.

				31 December 2022
Financial assets	**LEVEL 1** ***HRK 000***	**LEVEL 2** ***HRK 000***	**LEVEL 3** ***HRK 000***	**TOTAL** ***HRK 000***
Financial assets held for trading				
Foreign sovereign bonds	13,227	-	-	13,227
Total	**13,227**	**-**	**-**	**13,227**

				31 December 2021
Financial assets	**LEVEL 1** ***HRK 000***	**LEVEL 2** ***HRK 000***	**LEVEL 3** ***HRK 000***	**TOTAL** ***HRK 000***
Financial assets at fair value through other comprehensive income				
Local Government bonds	421,041	-	-	**421,041**
Local treasury bills	-	90,255	-	**90,255**
Foreign sovereign bonds	78,318	-	-	**78,318**
Foreign corporate bonds	55,361	-	-	**55,361**
Total	**554,720**	**90,255**	**-**	**644,975**

34. Events after the reporting date

The Bank has direct exposure to Turkish market, investments in government bonds and corporate bonds and other instruments amounting to 5% of its asset size, along with off-balance sheet exposure due to issued counter guarantees by Turkish banks for the Turkey based companies doing business in EU countries. In February 2023, there were 2 consecutive earthquakes in the southeastern parts of Turkey with magnitudes of 7.7 and 7.6 which effected 10 cities and more than 10 million people.

The region affected by the event is not a highly industrialised part of the country and the Bank doesn't foresee any potential risk for Turkey connected exposure and the Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

Appendix 1 – Supplementary schedules for CNB

Croatian National Bank adopted on 10 May 2018 the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 42/2018, 122/20, 119/2021 and 108/2022).
Supplementary schedules for the CNB prepared pursuant to the above Decision are presented below along with the reconciliation of the supplementary schedules for CNB with the statutory financial statements, prepared in accordance with the accounting regulations applicable for banks in Croatia.

Appendix 1 – Supplementary schedules for CNB

INCOME STATEMENT for the period 01.01.2022. to 31.12.2022.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1.Interest income	**069**	93.236.189	104.509.444
2.Interest expenses	**070**	8.691.586	7.989.616
3.Expenses on share capital repayable on demand	**071**		
4.Dividend income	**072**		
5.Fee and commission income	**073**	22.199.382	28.263.002
6.Fee and commission expenses)	**074**	3.901.682	4.632.869
7.Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**075**	3.311.257	2.557.639
8.Gains or (-) losses on financial assets and liabilities held for trading, net	**076**	17.349.474	22.046.876
9.Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**077**		
10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	**078**		
11. Gains or (-) losses from hedge accounting, net	**079**		
12. Exchange differences [gain or (-) loss], net	**080**	-201.884	482.695
13. Gains or (-) losses on derecognition of non-financial assets, net	**081**		
14. Other operating income	**082**	967.830	908.450
15. (Other operating expenses)	**083**	2.576.065	5.545.236
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	**084**	**121.692.915**	**140.600.385**
17. Administrative expenses	**085**	74.123.074	87.808.253
18. Depreciation	**086**	10.280.013	12.905.001
19. Modification gains or (-) losses, net	**087**		
20. Provisions or (-) reversal of provisions	**088**	1.027.071	1.852.815
21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	**089**	1.831.900	-950.585
22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	**090**		
23. Impairment or (-) reversal of impairment on non-financial assets	**091**		
24. Negative goodwill recognised in profit or loss	**092**		
25. Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	**093**		
26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**094**		
27. PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**095**	**34.430.857**	**38.984.901**
28. Tax expense or (-) income related to profit or loss from continuing operations	**096**	6.287.941	7.332.497
29. PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**097**	**28.142.916**	**31.652.404**
30. Profit or (-) loss after tax from discontinued operations (AOP 099 - 100)	**098**	0	0
30Profit or (-) loss before tax from discontinued operations	**099**		
30Tax expense or (-) income related to discontinued operations	**100**		
31. PROFIT OR (-) LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**101**	**28.142.916**	**31.652.404**
32. Attributable to minority interest [non-controlling interests]	**102**		
33. Attributable to owners of the parent	**103**		

Appendix 1 – Supplementary schedules for CNB

BALANCE SHEET AS AT 31.12.2022.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
Assets			
1.Cash, cash balances at central banks and other demand deposits	**001**	**651.643.264**	**1.029.767.746**
1.1 Cash on hand	**002**	41.337.654	39.261.820
1.2 Cash balances at central banks	**003**	469.449.349	916.737.660
1.3 Other demand deposits	**004**	140.856.261	73.768.266
2.Financial assets held for trading	**005**	**0**	**13.226.706**
2.1 Derivatives	**006**		
2.2 Equity instruments	**007**		
2.3 Debt securities	**008**		13.226.706
2.4 Loans and advances	**009**		
3.Non-trading financial assets mandatorily at fair value through profit or loss	**010**	**15**	**15**
3.1 Equity instruments	**011**	15	15
3.2 Debt securities	**012**		
3.3 Loans and advances	**013**		
4.Financial assets designated at fair value through profit or loss	**014**	**0**	**0**
4.2 Debt securities	**015**		
4.3 Loans and advances	**016**		
5.Financial assets at fair value through other comprehensive income	**017**	**644.975.049**	**0**
5.1 Equity instruments	**018**	0	0
5.1 Debt securities	**019**	644.975.049	0
5.2 Loans and advances	**020**	0	0
6.Financial assets at amortised cost	**021**	**1.988.994.405**	**2.946.663.228**
6.1 Debt securities	**022**	15.388.643	648.553.998
6.2 Loans and advances	**023**	1.973.605.762	2.298.109.230
7.Derivatives – Hedge accounting	**024**		
8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	**025**		
9.Investments in subsidiaries, joint ventures and associates	**026**		
10. Tangible assets	**027**	**57.459.260**	**62.182.023**
11. Intangible assets	**028**	**12.651.719**	**14.285.523**
12. Tax assets	**029**	**1.960.179**	**4.709.465**
13. Other assets	**030**	**7.797.684**	**5.437.865**
14. Non-current assets and disposal groups classified as held for sale	**031**		
15. TOTAL ASSETS	**032**	**3.365.481.575**	**4.076.272.571**
Liabilities			
16. Financial liabilities held for trading	**033**	**0**	**0**
16.1 Derivatives	**034**		
16.2 Short positions	**035**		
16.3 Deposits	**036**		
16.4 Debt securities issued	**037**		
16.5 Other financial liabilities	**038**		
17. Financial liabilities designated at fair value through profit or loss	**039**	**0**	**0**
17.1 Deposits	**040**		
17.2 Debt securities issued	**041**		
17.3 Other financial liabilities	**042**		
18. Financial liabilities measured at amortised cost	**043**	**2.941.104.679**	**3.554.990.363**
18.1 Deposits	**044**	2.925.881.604	3.535.104.717
18.2 Debt securities issued	**045**		
18.3 Other financial liabilities	**046**	15.223.075	19.885.646

19. Derivatives – Hedge accounting	047		
20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	048		
21. Provisions	049	4.198.771	7.982.496
22. Tax liabilities	050	7.133.555	7.926.953
23. Share capital repayable on demand	051		
24. Other liabilities	052	49.319.592	72.655.229
25. Liabilities included in disposal groups classified as held for sale	053		
26. TOTAL LIABILITIES	054	3.001.756.597	3.643.555.041
Capital			
27. Capital	055	352.522.200	390.237.200
28. Share premium	056		
29. Equity instruments issued other than capital	057		
30. Other equity	058		
31. Accumulated other comprehensive income	059	374.850	0
32. Retained earnings	060	-19.768.064	7.956.108
33. Revaluation reserves	061		
34. Other reserves	062	2.453.077	2.871.820
35. (-) Treasury shares	063		
36. Profit or loss attributable to owners of the parent	064	28.142.915	31.652.402
37. (-) Interim dividends	065		
38. Minority interests [Non-controlling interests]	066		
39. TOTAL EQUITY	067	363.724.978	432.717.530
40. TOTAL EQUITY AND TOTAL LIABILITIES	068	3.365.481.575	4.076.272.571

Appendix 1 – Supplementary schedules for CNB

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2022. to 31.12.2022.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACTIVITIES AND ADJUSTMENTS			
1. Profit / (loss) before tax	001	28.142.915	31.652.402
2. Impairment	002	1.831.900	-8.497.029
3. Depreciation	003	10.280.013	12.905.001
4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	004		
5. (Gains) / losses from sale of tangible assets	005		
6. Other non-monetary items	006		
Change from assets and liabilities from operating activities			
7. Deposits with CNB	007	-26.231.612	142.971.493
8. Deposits at financial institiution and loans to fininancial institutions	008		
9. Loans to other clients	009	-262.711.873	-458.977.932
10. Financial assets at fair value through other comprehensive income	010	-189.863.943	644.600.199
11. Financial assets held for trading	011	0	-13.226.706
12. Non-trading financial assets mandatorily at fair value through profit or loss	012	0	0
13. Financial assets designated at fair value through profit or loss	013	0	0
14. Financial assets at amortised cost	014	0	0
15. Other assets from operating activities	015	-21.570.884	-10.009.595
Net increase/(decrease) in operating liabilities			
16. Deposits with banking institutions	016	0	0
17. Current accounts	017	356.559.467	567.073.491
18. Saving accounts	018	-127.723	1.713
19. Time deposits	019	62.152.787	45.643.567
20. Derivative financial liabilities and other financial liabilities held for sale	020	0	0
21. Other liabilities	021	22.197.359	24.129.035
22. Unpaid interest from operating activities	022	0	0
23. Dividends received	023	0	0
24. Paid interest from operating activities	024	0	0
25. Paid income tax	025	0	0
A) Net cash inflow / (outflow) from operating activities (AOP 001 do 025)	026	**-19.341.594**	**978.265.639**
INVESTMENT ACTIVITIES			
1. Cash receipts from (payments to acquire) tangible and intangible assets	027	-5.857.715	-5.857.715
2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	028	0	0
3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments from investment acitivities	029	21.402.299	-633.165.355
4. Dividends received	030	0	0
5. Other receipts from(payments for) investments	031	6.733.262	4.662.571
B) Net cash inflow / (outflow) from investment activities (AOP 027 do 031)	032	**22.277.846**	**-634.360.499**
FINANCIAL ACTIVITIES			
1. Net increase / (decrease) in received loans	033	-55.382.382	-3.495.658
2. Net increase / (decrease) of issued debt securities	034	0	0
3. Net increase / (decrease) of subordinated and hybrid instruments	035	0	0
4. Proceeds from issue of share capital	036	37.129.800	37.715.000
5. (Dividends paid)	037	0	0
6. Other proceeds(payments) from financing activities	038	0	0
C) Net cash inflow / (outflow) from financial activities (AOP 033 do 038)	039	**-18.252.582**	**34.219.342**
D) Net increase / (decrease) of cash and cash equivalents (AOP 026+032+039)	040	**-15.316.330**	**378.124.482**
Cash and cash equivalents at the beginning of the year	041	666.959.594	651.643.264
Effect of currency exchange rate conversion on cash and cash equivalents	042		
Cash and cash equivalents at the end of the year (AOP 040+041+042)	043	**651.643.264**	**1.029.767.746**

Appendix 1 – Supplementary schedules for CNB

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2022. to 31.12.2022.
Amounts in HRK

Position name	AOP code	Atributable to shareholders of the Bank											Minority interest		Total equity and reserves
		Share capital	Share premium	Equity instruments issued except capital	Other equity holdings	Accumulated other comprehensive income	Retained earnings/loss	Revaluation reserves	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends during the business year	Accumulated other comprehensive income	Other items	
1	2	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 to16)
1. Balance at 1 January 202021	**01**	352.522.200	0	0	0	374.850	8.374.851	0	2.453.077	0	0	0	0	0	363.724.978
2. Effect of error correction	**02**														0
3. Changes in accounting policies	**03**														0
4. Restated balance at 1 January 2018 (001+002)	**04**	352.522.200	0	0	0	374.850	8.374.851	0	2.453.077	0	0	0		0	363.724.978
5. Issuance of ordinary shares	**05**														0
6. Issuance of Preferred Shares	**06**														0
7. Issuance of other equity instruments	**07**														0
8. Execution or expiration of other issued equity instruments	**08**														0
9. Converting Debt to Owners instruments	**09**														0
10. Reduction of capital	**10**														0
11. Dividends	**11**														0
12. Purchase of treasury shares	**12**														0
13. Sale or cancellation of treasury shares	**13**														0
14. Reclassification of Financial Instruments from equity instruments in liabilities	**14**														0
15. Reclassification of Financial Instruments from liabilities to equity instruments	**15**	37.715.000													37.715.000
16. Transfers between components of equity instruments	**16**						-418.743		418.743						0
17. Increase or decrease in ownership instruments as a result of business combination	**17**														0
18. Share-based payments	**18**														0
19. Other increase or decrease in ownership instruments	**19**														0
20. Total comprehensive income for the current year	**20**					-374.850	31.652.402								31.277.552
Balance at 31 December 2013 (003+010+011+012+013+016)	**22**	390.237.200	0	0	0	0	39.608.511	0	2.871.820	0	0	0	0	0	432.717.530

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

a) Comparison of profit and loss account

Statutory financial statements		Supplementary schedules for CNB				
Position name	**Amount in HRK '000**	**Position name**	**AOP code**	**Amount in HRK '000**	**Difference**	**Explanation of difference**
Interest and similar income	103.401	1. Interest income	**069**	104.509	- 1.108	HRK -37 thousand of Interest income from placements to non-banking financial institutions is presented within Fees nad commision income for CNB reporting (Note 1), HRK -1,070 of Cancellation interest with premature deliverance of deposit is presented in interest expense in financial statmenets (Note 2), HRK -1 is rounding difference
Interest expense and similar charges	- 7.898	2. Interest expense	**070**	- 7.990	92	HRK -74 thousand of Expenses based on commissions/fees for banking services of residents is presented within Fees nad commision expense for CNB reporting (Note 3) and HRK -904 thousand of Interest expenses banks is presented within Other operating expenses for CNB reporting (Note 4) ; HRK 1,070 See Note 2,
		3.Expenses on share capital repayable on demand	**071**			
		4.Dividend income	**072**			
Fee and commission income	28.301	5.Fee and commission income	**073**	28.263	38	HRk 37 see Note 1 above, HRK 1 is rounding difference
Fee and commission expense	- 4.558	6.Fee and commission expenses)	**074**	- 4.633	75	HRK 74 Refer to Note 3 above, HRK 1 is rounding difference
Net realised gains from financial assets available for sale	2.528	7.Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**075**	2.558	- 30	HRK 482 thousand of foreign exchange differences in relation to dealing with foreign currencies reclassified to Exchange differences [gain or (-) loss], net for CNB reporting (Note 5), HRK 13 thousand of Realized gain/loss from assets at fair value through other comprehensive income is presented within Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss for CNB reporting (Note 6), HRK 1 is rounding difference
Net gains from translation of monetary assets and liabilities, fixing of CHF rate and foreign exchange spot trading	22.573	8.Gains or (-) losses on financial assets and liabilities held for trading, net	**076**	22.047	499	
Net gains/(losses) on derecognition of financial assets measured through FVTPL	-27	9.Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**077**			
		10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	**078**	-		
		11. Gains or (-) losses from hedge accounting, net	**079**	-	-	
		12. Exchange differences [gain or (-) loss], net	**080**	483	- 483	Refer to Note 5 above; 1 HRK is rounding diference
		13. Gains or (-) losses on derecognition of non-financial assets, net	**081**	-	-	
Other income	464	14. Other operating income	**082**	908	- 444	income from reversal of unused vacation day provision (HRK -136 thousand) included in staff costs in statutory financial statements. (Note 7). and HRK 197 thousand of Income from reversal of provisions for litigation initiated against the bank is presented within Impairment losses and provisions in Financial statements (Note 8) Cost of sale of tangible asset (HRK -504 thousand) netted with income from sale in statutory financial statements (Note 9), -1 is rounding difference

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

b) **Comparison of profit and loss account (continued)**

Statutory financial statements		Supplementary schedules for CNB				
Position name	**Amount in HRK '000**	**Position name**	**AOP code**	**Amount in HRK '000**	**Difference**	**Explanation of difference**
		15. (Other operating expenses)	**083**	- 5.544	5.544	Refer to Note 4, Note 8, and HRK 4,136 of other expenses is presented in other administrative expenses in financial reporting (Note 10),
Staff costs	- 60.208				- 60.208	HRK -59,805 thousand of expenses for salaties, taxes and contribution and other expenses related to employees are presented w tihin Administrative expenses for CNB reporting (Note 11), HRK 136 thousand refer to Note 7 above, HRK -540 reservation for unused vacation are presented in Other administrative expense in Financial statements (Note 12), HRK -1 is rounding difference
Other administrative expenses	- 31.600	17. Administrative expenses	**085**	- 87.808	56.208	HRK 59,805 refer to Note 11 above HRK 540 refer to Note 12 above and HRK 4,136 refer to Note 10 above, 1 HRK is rounding diference
Depreciation and amortisation	- 12.905	18. Depreciation	**086**	- 12.905	-	
		19. Modification gains or (-) losses, net	**087**	-	-	
		20. Provisions or (-) reversal of provisions	**088**	- 1.853	1.853	HRK 1,853 of provisions and reversal of provisions for court cases are presented in Impairment losses and provisions in Financial statements (Note13)
Impairment losses and provisions	- 1.086	21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	**089**	951	- 2.037	Refer to Note6, Note 8, and Note 13 above
		22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	**090**		-	
		23. Impairment or (-) reversal of impairment on non-financial assets	**091**		-	
		24. Negative goodw ill recognised in profit or loss	**092**		-	
		25. Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	**093**		**-**	
		26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**094**	-		
PROFIT (LOSS) BEFORE TAX	**38.985**	**22. PROFIT/(LOSS) BEFORE TAX**		**38.986**	1	HRK 1 represents rounding difference
Income tax expense	- 7.332	**23. INCOME TAX**		- 7.332	-	
LOSS FOR THE YEAR	**31.653**	**24. PROFIT/(LOSS) FOR THE PERIOD**	**095**	**31.654**	**- 1**	HRK 1 represents rounding difference

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

a) Comparison of statement of financial position

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
ASSETS		**ASSETS**				
Cash and current accounts with banks	975.091	**1.Cash, cash balances at central banks and other demand deposits**	**001**	**1.029.768**	54.677	
		1.1 Cash on hand	**002**	39.262	0	HRK 54,677 placements to other banks is presented in Financial statements in Placemnets with other banks (Note 1) 1 is rounding difference
		1.2 Cash balances at central banks	**003**	916.738	0	
		1.3 Other demand deposits	**004**	73.768	0	
Obligatory reserve with Croatian National Bank and compulsory CNB bills	-				0	
Placements with other banks	57.465				57.465	HRK 2,787 thousand of Placements with other banks is presented in Financial assets at amortised costs for CNB reporting (Note 2) and HRK 54,677 refer to (Note 1) above 1 is rounding difference
Financial investments helld for trading	13.227	**2.Financial assets held for trading**	**005**	**13.227**	0	
		2.1 Derivatives	**006**	-	0	
		2.2 Equity instruments	**007**	-	0	
		2.3 Debt securities	**008**	13.227	0	
		2.4 Loans and advances	**009**	-	0	
		3.Non-trading financial assets mandatorily at fair value through profit or loss	**010**	**0**	0	
		3.1 Equity instruments	**011**	-	0	
		3.2 Debt securities	**012**	-	0	
		3.3 Loans and advances	**013**	-	0	
		4.Financial assets designated at fair value through profit or loss	**014**	**0**	0	
		4.2 Debt securities	**015**	-	0	
		4.3 Loans and advances	**016**	-	**0**	
Financial assets at fair value through other comprehensive income	-	**5.Financial assets at fair value through other comprehensive income**	**017**	**0**	**0**	
		5.1 Equity instruments	**018**	-	**0**	
		5.1 Debt securities	**019**	-	**0**	
		5.2 Loans and advances	**020**	-	**0**	
		6.Financial assets at amortised cost	**021**	**2.946.663**	**0**	
Financial investments at amortised cost	664.953	6.1 Debt securities	**022**	648.554	**16.399**	HRK 16,400 of Factoring and reservation is presented in Loans and advances in CNB reporting (Note 3),- 1 is rounding difference
Loans to and receivables from customers	2.277.423	6.2 Loans and advances	**023**	2.298.109	**-20.686**	HRK -2,787 thousand refer to Note 2 above, HRK -16,400 refer to Note 3 above, HRK -1,308 thousand of Recivables of Noninterest income and Accrued fees on Loans is presented in Other assets in Financial statements (Note 4), -190 HRk of deferred fees is presented in Ohter LIabilities in financial statement (Note 12) -1 is rounding difference
		7.Derivatives – Hedge accounting	**024**	**0**	**0**	
		8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	**025**	**0**	**0**	
		9.Investments in subsidiaries, joint ventures and associates	**026**	**0**	**0**	
Foreclosed assets	654				**654**	HRK 654 of Foreclosed assets is Presented in Other assets in CNB reporting (Note 5)
Property, plant and equipment	42.929	**10. Tangible assets**	**027**	**62.182**	**-19.253**	HRK -19,253 of Tangamble assets presentted in CNB reporting is shown under Right of use assets (Note 6)
Right of use assets	19.253				**19.253**	Refer to Note 6 above
Intangible assets	14.286	**11. Intangible assets**	**028**	**14.286**	**0**	
Income tax prepayment	-	**12. Tax assets**	**029**	**4.709**	**-4.709**	HRK-167 thousand payment for other taxes to Tax Goverment is presented in Other assets in Financial statements (Note 7), HRK -4,542 of prepayment for income taxes is netted in Financial statements with Tax liabilities (Note 8)
Other assets	6.259	**13. Other assets**	**030**	**5.438**	**821**	HRK 167 thousand refer to Note 7, HRK -654 refer to Note 6, HRK 1,308 thousand refer to Note 4 above,
		14. Non-current assets and disposal groups classified as held for sale	**031**	**0**	**0**	
TOTAL ASSETS	**4.071.540**	**15. TOTAL ASSETS**	**032**	**4.076.273**	**-4.733**	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of statement of financial position (continued)

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
LIABILITIES		**LIABILITIES**				
		16. Financial liabilities held for trading	**033**	0	0	
		16.1 Derivatives	**034**	0	0	
		16.2 Short positions	**035**	0	0	
		16.3 Deposits	**036**	0	0	
		16.4 Debt securities issued	**037**	0	0	
		16.5 Other financial liabilities	**038**	**0**	0	
		17. Financial liabilities designated at fair value through profit or loss	**039**	0		
		17.1 Deposits	**040**	0		
		17.2 Debt securities issued	**041**	0		
		17.3 Other financial liabilities	**042**	0		
Subordinated liabilities	-				0	
Current accounts and deposits from banks and financial ins	138.632	**18. Financial liabilities measured at amortised cost**	**043**	**3.554.990**		
Current accounts and deposits from customers	3.126.901	18.1 Deposits	**044**	3.535.105	-19.886	HRK -19,866 thousand of Payables for income distribution and Fees for deposits snd Liabilities for leasing is presented tatements under Other Liabilities (Note 9),
Interest-bearing borrow ings	269.571	18.2 Debt securities issued	**045**	0		
		18.3 Other financial liabilities	**046**	**19.886**		
		19. Derivatives – Hedge accounting	**047**	**0**		
		20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	**048**	**0**	0	
Provisions for liabilities and charges	6.886	**21. Provisions**	**049**	**7.982**	-1.096	HRK -1,097 of Accruals for unused vacation is presented in Financial statements as Other liabilites (Note 10), 1 thousand is rounding difference
Income tax liability	**2.780**	**22. Tax liabilities**	**050**	**7.927**	-5.147	HRK -605 of Tax liabilities is presented in Financial statements as Other liabilities (Note 11) HRK -4,542 refer to Note 8 above
		23. Share capital repayable on demand	**051**	**0**	0	
Other liabilities	94.052	**24. Other liabilities**	**052**	**72.655**	21.397	HRK 1,097 refer to Note 10 above, HRK 605 refer to Note 11 above, HRK 19,866 refer to Note 9, -190 refer to Note 12, -1 thousand is rounding difference
		25. Liabilities included in disposal groups classified as held for sale	**053**	**0**	0	
Total liabilities	**3.638.822**	**26. TOTAL LIABILITIES**	**054**	**3.643.555**	-4.733	
EQUITY		**EQUITY**			0	
Issued share capital	390.237	**27. Capital**	**055**	390.237	0	
		28. Share premium	**056**	0	0	
		29. Equity instruments issued other than capital	**057**	0	0	
		30. Other equity	**058**	0	0	
Fair value reserve	-	**31. Accumulated other comprehensive income**	**059**	**0**	0	
Accumulated loss	39.609	**32. Retained earnings**	**060**	7.956	31.653	Profit for the year is a separate line of equity for CNB reporting, 1 thousand is rounding difference
		33. Revaluation reserves	**061**	**0**	0	
Legal and other reserves	2.872	**34. Other reserves**	**062**	2.872	0	
		35. (-) Treasury shares	**063**	**0**	0	
		36. Profit or loss attributable to owners of the parent	**064**	31.652	-31.652	Profit for the year is a separate line of equity for CNB reporting.
		37. (-) Interim dividends	**065**	0	0	
		38. Minority interests [Non-controlling interests]	**066**	**0**	0	
Total equity	**432.718**	**39. TOTAL EQUITY**	**067**	**232.873**	199.845	
TOTAL LIABILITIES AND EQUITY	**4.071.540**	**40. TOTAL EQUITY AND TOTAL LIABILITIES**	**068**	**2.422.941**	1.648.599	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

c) Comparison of cash flow statement

Differences in Cash and cash equivalents arise from different classification of items of statement of financial position for statutory reporting and CNB reporting as well as elimination of non-cash transactions from movements for statutory financial reporting purposes.

d) Comparison of statement of changes in equity

In statutory financial statements loss for the year and accumulated loss are both included in accumulated loss, while they are separately presented for CNB reporting.

Appendix 3
Disclosures in accordance with Article 164 of the Credit Institutions Act

Pursuant to Article 164 of the Credit Institutions Act, the Bank discloses following information:

1) The Bank is licensed for the following services:
    - receiving deposits or other repayable funds from the public and extending credits out of these funds, for the Bank's own account,
    - receiving deposits or other repayable funds,
    - lending, including consumer lending, mortgage loans and, where permitted under a special law, financing of commercial transactions, including export finance based on the purchase at a discount without recourse of long-term, non-current, non-matured receivables collateralized with a financial instrument (forfaiting),
    - repurchase of receivables with or without recourse (factoring),
    - issue of guarantees or other sureties,
    - trading for its own account, or for the account of clients, in:
        - money market instruments,
        - negotiable securities,
        - foreign exchange, including currency exchange transactions,
    - payment processing services, in accordance with special laws,
    - services ancillary to lending, such as e.g. collection, analysis and provision of information on the creditworthiness of legal and natural persons conducting business,
    - renting safety deposit boxes,
    - intermediary services in money market transactions,
    - issuing of other payment instruments and their management if the provision of this services is not considered to be the provision of payments services in a way proscribed by other laws,
    - issuing of electronic money,
    - representing in insurance.
2) The total revenue of the Bank in 2022 amounted to HRK 158,285 thousand;
3) The Bank employs 250 full-time employees;
4) Profit before tax in 2022 amounted to HRK 38,985 thousand;
5) Income tax in 2022 amounted to HRK 7,332 thousand;
6) During 2022, the Bank did not receive public subsidies.