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ANNUAL REPORT 2021

General Data
PODRAVSKA BANKA d.d.

Head Office
Opatička 3
48000 Koprivnica
Croatia

Phone
+385 72 20 20 20

Fax
+385 72 655 200

E-mail
info@poba.hr

www.poba.hr



ANNUAL REPORT 2020

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**REPORT OF THE CHAIRMAN
OF THE SUPERVISORY BOARD
AND REPORT OF THE
MANAGEMENT BOARD**

LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board of Podravska banka and myself, I present to you the business results of the Bank for 2021. Although it was affected by the pandemic again in 2021, Podravska banka achieved a good result and maintained its position as the leading small bank on the Croatian financial market.

The past year has been marked by waves of the pandemic, a strong economic recovery of the domestic economy, as well as signs of a return of inflationary pressures. Inflationary pressures were primarily due to problems in supply chains and rising prices of a number of key raw materials.

In 2021, financial markets were still features low, sometimes negative interest rates and flexible monetary policy. Over the year, the economy recorded a strong and rapid recovery thanks to export growth, a successful tourist season and consolidated domestic demand. Positive trends were also noted on the labour market, and the growth of foreign investment was further stimulated by the European Union funds. Such conditions also led to an improvement in fiscal indicators, which resulted in improved credit rating of the country.

Podravska banka acted resolutely in dealing with the pandemic and its consequences, both in terms of its own operations and in the community. The Bank ensured business continuity and quality of services at all times, while taking care of the health of its employees and clients. Timely identification and management of pandemic risks and proactive care of the clients affected by the pandemic resulted in good business and operational indicators.

In 2021, the Bank achieved a good business result with profit before tax of HRK 19.5 million. In terms of assets and capital, the Bank ranks 11th among twenty banks in Croatia. At the end of 2021, the Bank's total assets amounted to HRK 4.2 billion, which is an increase of 7.0% compared to the previous year. Operating income of the Bank amounts to HRK 133.2 million. The bank is still highly capitalized in relation to the risks to which it is exposed and the regulatory capital ratio at the end of 2021 was a high 19.2%.

In 2021, the Bank continued its activities to improve technological support in all business segments. The Bank continues the activities that enable its acquisition of new clients with the development of digital tools accompanied by the integration of a range of services. Substantial funds and great efforts are still directed to investing in the digitalization of the Bank's processes and services.

In the forthcoming period, the Bank will continue to effectively manage risks by continuously improving its processes, methodologies, models and controls. Our business strategy will continue to focus on customer needs and, accordingly, on product development in order to establish long-term relationships. The strengthening of commercial activities towards the civil and corporate sectors continues, while avoiding high concentration of placements. Through active risk management, market diversification and raising the quality of services, Podravska banka maintains its position as the leading small bank on the Croatian banking market.

On behalf of the Supervisory Board, I would like to express my gratitude and acknowledgement to the management and all employees of Podravska banka for their dedication and contribution to the business performance.

I would also like to express my gratitude to all colleagues on the Supervisory Board for their active support in the development of the Bank.

Chairman of the Supervisory Board

Miljan Todorovic



ANNUAL REPORT OF THE MANAGEMENT BOARD

The Management Board of Podravska banka d.d. presents the results of its operations for the year 2021.

In 2021, Podravska banka generated a profit before tax in the amount of HRK 19.5 million, which represents 28.9% increase compared to the previous year. Although 2021 was affected by pandemic disruptions, the good result is due to the Bank's business strategy and strong capital and liquidity position.

During 2021, the Bank actively worked on the innovation of products, services and sales channels, with emphasis on quality support to clients, partners and the local community. The process of digitalization continued and the number of new products and services increased, which resulted in growth in all business segments. Also, staff training and new employments continued, and further measures were taken in order to optimize operating costs.

The first half of past year was marked by pandemic distortions, and the Bank paid special attention to risk management, managing the loan portfolio in accordance with business policies and applicable standards, while respecting all regulatory rules and applying an approach which acknowledges the market situation and customer needs.

By the size of its assets and total capital at the end of 2021, the Bank occupied the 9th place among twenty banks in Croatia. The total assets of the Bank at the end of 2021 amounted to HRK 4.2 billion, which represents an increase of 7.0% compared to the previous year. Total customer deposits increased by 12.8% year-on-year and amounted to HRK 3.1 billion. In 2021, total gross loans to customers increased by 9.7% and stood at HRK 2.4 billion, while retail loans increased by 18.5% and corporate loans by 1.2%.

The Bank remains highly capitalised with a regulatory capital rate peaking at 19.2% at the end of 2021. The regulatory capital at the end of 2021 amounted to HRK 504.5 million. Capitalization and liquidity have increased and the Bank is successfully meeting all customer needs. During 2021, subordinated bonds in the amount of EUR 8.5 million were issued, which further strengthened the Bank's capital position.

The Bank's operating income amounts to HRK 133.2 million and in its structure the share of net interest income is 67.1%, net income from fees and commissions is 19.5%, while other income participates with 13.4% and essentially relates to the financial income. The Bank's net interest income increased by 3.3%, while net fee and commission income increased by 12.7% compared to the same period last year. The profit for the year amounts to HRK 15.2 million.

The Bank's business result for the past year was primarily influenced by the developments related to pandemic, the implementation of mitigation measures and their impact on the domestic economy, which is sensitive to global economic changes. This is most evident in inflationary pressures, which, after the global economy emerged from a short-lived pandemic-induced recession, are largely due to rising energy prices and disrupted supply chains. According to the latest available data, the global economy grew by 5.9% in 2021, and the speed of recovery of individual economies depended mainly on economic policy measures aimed at mitigating the effects of the pandemic and the success of curbing the spread of the disease.

According to the latest CNB projection, domestic GDP increased by 10.8% in 2021 with positive developments in almost all other macroeconomic indicators. Thus, the administrative unemployment rate at the end of 2021 was 6.8%, with nominal gross wages increase in the fourth quarter of 4.7% compared to the fourth quarter of 2020. Inflation increased by 2.4%. The credit default swap premium (CDS) decreased to 76 basis points at the end of 2021, compared to 82 basis points at the end of 2020.

Upon adoption of The National Plan for the Changeover from the Croatian Kuna to the Euro, Croatia continued preparations for the introduction of the euro as the national currency, and activities intensified at the end of 2021. The introduction of the euro represents a significant challenge for all economic entities in the Republic of Croatia, and especially for banks which, in addition to having to adapt their own information systems and comply with new legislation, are the main distribution channel for the new currency.

Based on all of the above, the Fitch agency raised the rating of the Republic of Croatia by one notch, from 'BBB-' to 'BBB', with a positive outlook.

The Croatian banking system remains stable, highly capitalized and liquid. According to unaudited data, the total regulatory capital of the system on 31 December 2021 was 24.87%, which is one of the highest capitalization rates in Europe. At the end of the year, a total of twenty banks and three housing savings banks operated on the Croatian market.

In the January issue of the World Economic Outlook, the IMF estimated that the growth of the global economy in 2022 will slow to 4.4%. This should primarily be due to the slowdown of the world's two largest economies, the United States and China. In the US, a slight slowdown is expected due to the withdrawal of fiscal aid, normalization of monetary policy and difficulties in supply chains, and in China due to pandemic-related disruptions in the normal functioning of the economy and financial problems of real estate companies.

Meanwhile, in early 2022, there was an escalation of geopolitical risks manifested by Russia's invasion of Ukraine and the response of Western countries with an unprecedented level of economic sanctions aimed at the Russian Federation. Given the size and importance of both countries markets, the fact that Russia is one of the world's largest energy exporters, supplying the European continent with oil and gas, as well as the fact that together with Ukraine it is one of the world's most important grain producers, it will probably be necessary to significantly revise existing estimates of world economic growth in 2022.

The war has already caused the inevitable effects on rising energy prices and supply chain disruptions, which will have a strong additional impact on the already high inflationary pressures and, consequently, on the real economic growth of virtually all world economies. European countries are particularly vulnerable here due to their dependence on energy from Russia, and the final result of growth in 2022 will largely depend on the duration of armed conflicts, the scope and duration of sanctions imposed on Russia and reciprocal measures that will surely follow from the Russian side.

In the upcoming period, the Bank's operations will depend on the pace of economic recovery and the risks associated with the Ukrainian crisis, inflation and energy



crisis. The Bank will continue to focus on customer needs and will accordingly develop products and services in order to improve and maintain long-term relationships.

During 2022, the Bank plans a major step forward in the market as a result of the completion of the project of services digitalization and the opening of new channels of communication with customers. The future of banking lies in integrated distribution channels and significant funds have been invested in the digitalization of business processes and services. The digitalization of business will enable further improvement of communication and customer monitoring channels through branches, the Internet, self-service devices, telephones and mobile phones.

Finally, I take this opportunity to express my gratitude to all our clients and business partners for the trust and cooperation that obliges us to constantly improve our professional relationship.

I also express appreciation to our shareholders and the members of the Supervisory Board for their exceptional cooperation and support, and all the Bank's employees for their effort and commitment.

Goran Varat
President of the Management Board





DESCRIPTION OF OPERATIONS

OVERVIEW OF THE WORLD ECONOMY IN 2021

According to the latest available IMF estimate from January 2022, the global economy grew by 5.9% in 2021, following the crisis caused by the coronavirus pandemic and falling by 3.1% in 2020. The pace of recovery in some countries depended mostly on economic policy measures aimed at mitigating the consequences of the pandemic and success in curbing the spread of the disease.

Already in early 2021, China managed to return to the pre-pandemic trajectory, after which it began to slow down due to disruptions in supply chains and problems in the real estate market. The recovery of developed economies was largely due to vaccination, which intensified in the second quarter, while in developing countries the recovery was slower.

In addition to the negative impact on global industrial production and consumption, disruptions in supply chains have also contributed to a strong rise in inflation globally. Monetary policy in most countries has remained highly accommodative, ensuring very favourable financing conditions, but some central banks have begun to announce faster monetary policy normalization or raise interest rates in response to growing inflationary pressures.

In the United States, strong growth continued in early 2021, thanks to generous fiscal support and successful vaccination of population that spurred the recovery of the service sector, bringing economic activity back to pre-crisis levels. However, during the summer months, when problems in global supply chains further intensified, economic growth slowed markedly. The slowdown was mostly reflected in the reduction of personal consumption of durable goods and the weakening of commodity exports. At the same time, investment activity remained relatively strong, despite continued uncertainty. Labor market conditions continued to improve, with the unemployment rate decreasing to 4.6% by the end of October, still above pre-crisis levels. Disruptions in global supply chains, accompanied by rising energy and raw material prices, contributed to rising US inflation from 1.4% in January to 6.2% in October 2021, the most prominent acceleration among large developed countries.

Unlike the US, the intensity of the euro area recovery accelerated in the second and third quarters of 2021 (2.1% and 2.2%, respectively), and economic activity almost returned to pre-crisis levels by the end of September. While on the one hand the intensification of the vaccination process encouraged the recovery of the service sector, on the other hand the lack of some important intermediate goods, especially semiconductors, greatly limited the recovery of industrial production. Observed by individual member states, a significant contribution to the acceleration of growth in the second and third quarters along with Germany was made by Italy and France, thanks to the recovery of the service sector. Early indicators of economic activity at the beginning of the fourth quarter, however, point to a slowdown in growth due to growing difficulties in supply chains, but also the resurgence of the pandemic in many European countries.

According to the latest IMF projections (WEO, January 2021), global economic growth could slow to 4.4% in 2022 as a result of weaker growth in the world's two largest economies. The reasons for the weaker expected growth in the US are the withdrawal of fiscal aid, earlier normalization of monetary policy measures and difficulties in supply chains, while in China these are pandemic-related disruptions in the normal functioning of the economy and financial problems of real estate companies.

Given the new circumstances, primarily related to geopolitical events, it is expected that the inflation rate will be increased for a longer period than previously expected and that problems with supply chains and high energy prices will persist in 2022.

OVERVIEW OF THE CROATIAN ECONOMY IN 2021

The favourable epidemiological situation during the third quarter of 2021 and significantly less restrictive pandemic related measures compared to competing countries contributed to the exceptionally good economic performance in the year behind us. As a result, the CNB estimates GDP growth in 2021 at 10.8%. The increase in GDP on an annual basis was mostly due to the growth of total exports, primarily exports of services, due to exceptionally good achievements in tourism, while personal consumption also made a high positive contribution. At the annual level, all other components of GDP increased, except for government spending. Personal consumption increased by 9.4% in 2021. The increase in personal consumption, along with the favourable epidemiological situation during the summer was due to the re-establishment of normal patterns of consumption and savings, after a sharp decline in consumption and an increase in savings at the height of the pandemic.

In 2021, consumer price inflation (CPI) accelerated to 2.4% (from 0.1% in 2020). The rise in inflation in 2021 is mainly the result of accelerating growth in energy prices, and to a lesser extent in consumer price inflation excluding food and energy, amid a recovery in demand and disruptions on the supply side. The biggest contribution to the acceleration of inflation in 2021 was made by the strong increase in the annual rate of change in energy prices, as a result of rising crude oil prices on the world market and the positive effect of the base period. In addition, prices of components of the consumer price index (CPI) other than food and energy grew somewhat faster, as a result of inflationary pressures due to demand recovery, as well as supply-side factors, ie rising raw material prices on the world market, increase in freight rates and disruptions in supply chains due to which there is a shortage of certain intermediate and final products.

In 2021, the CNB continued to pursue an expansionary monetary policy, which helped to reduce financing costs, with some interest rates falling to their lowest level ever. Placements of credit institutions to enterprises decreased during the first ten months of 2021, which was contributed by an equal decline in working capital loans and other loans, while investment loans increased. The CNB estimates that the annual growth of corporate placements slowed to 0.2% in 2021, which, in addition to weaker performance, is also due to the base effect, ie a strong increase in placements in December 2020. Retail lending continued to strengthen, which was mainly due to the continued multi-year acceleration of housing loans, and to a lesser extent a slight recovery in the growth of non-purpose cash loans. Thus, it is estimated that in 2021 loans to households were 4.9% higher compared with the preceding year.

After a relatively slight decrease in 2020, employment recovered in 2021, with measures taken by the Government of the Republic of Croatia to maintain employment in crisis-stricken industries. At the annual level, employment growth is expected to be 2.2% in 2021, with the number of employees exceeding the 2019 achievements. Wage growth in 2021 accelerated, reflecting an increase in the public sector base wage, as well as the wage growth in the rest of the economy, so the average nominal gross wage in 2021 increased by 4% (2.5% in 2020).



MACROECONOMIC INDICATORS FOR CROATIA	2021	2020	2019	2018
GROSS DOMESTIC PRODUCT, MILLION EUROS IN CURRENT PRICES	56,400	50,225	55,604	52,718
GROSS DOMESTIC PRODUCT ("GDP"),% CHANGE	10.8	-8.1	3.5	2.9
BDP PER CAPITA, EUROS	14,502	12,410	13,678	12,896
PERSONAL CONSUMPTION,% CHANGE	9.4	-5.3	4.0	3.3
PUBLIC SPENDING,% CHANGE	1.0	4.1	3.3	2.4
INVESTMENTS,% CHANGE	7.9	-6.1	9.8	3.8
EXPORTS OF GOODS AND SERVICES,% CHANGE	31.1	-22.7	6.8	3.7
IMPORTS OF GOODS AND SERVICES,% CHANGE	19.0	-12.3	6.5	7.5
INDUSTRIAL PRODUCTION,% CHANGE	6.7	-3.4	-2.7	0.6
UNEMPLOYMENT RATE (ILO) (% OF ACTIVE POPULATION)	6.8	7.5	6.6	8.4
CONSUMER PRICES,% CHANGE	2.4	0.1	0.8	1.5
GENERAL GOVERNMENT BALANCE (% OF GDP)	-4.0	-7.4	0.3	0.2
CURRENT ACCOUNT BALANCE (% GDP)	2.0	-0.1	3.0	1.9
EXTERNAL DEBT (% OF GDP)	74.6	79.8	72.4	80.8
HRK EXCHANGE RATE: EURO, ANNUAL AVERAGE	7.52	7.54	7.41	7.41

Source: CNB, Bloomberg

The exchange rate of the kuna against the euro was stable during 2021. At the end of November 2021, the exchange rate of the kuna against the euro was 7.52 EUR / HRK, which is 0.4% lower than at the end of the same month in 2020, while the average exchange rate in the first eleven months of 2021 was also 7.52 EUR / HRK or 0.1% lower than the average exchange rate realized in the same period last year.

At the end of 2021, short-term interest rates on the European money market remained in negative, influenced by the expansionary monetary policy of the European Central Bank and the high liquidity of the euro area banking system. Thus, at the end of December, the overnight interest rate on the euro area EONIA banking market was -0.5%, and the six-month EURIBOR was -0.55%.

Croatia's risk premium for 5 years remained almost unchanged and at the end of 2021 amounted to 76 basis points, which continued to record slightly higher values compared to comparable countries in Central and Eastern Europe, except Romania. For comparison, the risk premium of Croatia at the end of December 2020 amounted to 82 basis points, and at the end of 2019 to 70 basis points.

The current and capital account surplus in 2021 increased markedly compared to the previous year, primarily due to a strong recovery in tourism revenues. Accordingly, a net outflow of capital on the financial account of the balance of payments is expected and the relative indicators of external indebtedness will continue to improve.

Consolidated general government debt at the end of August 2021 amounted to HRK 344.7 billion, which is an increase of HRK 14.5 billion compared to the end of 2020. As for the relative public debt indicator, it decreased to 82.4% of GDP in August 2021 from 87.3% of GDP at the end of 2020, largely reflecting the favourable impact of economic activity growth.

Yields on treasury bills, both in domestic currency and in euros, recorded the lowest historical levels. At the end of 2021, the yield on kuna bills for one year was 0.0%.

Yields on treasury bills denominated in EUR for one year were -0.15% at the last auction in October 2021.

In November, the Fitch Credit Rating Agency raised the rating of the Republic of Croatia from BBB - to BBB with a positive outlook, which is two levels above the speculative rating. Croatia's rating with Standard & Poor's has remained unchanged since March 2019, which is BBB - with a stable outlook, while Moody's is the only agency to keep Croatia's rating one level below the investment grade, on Ba1 with a stable outlook.

DESCRIPTION OF BANK'S OPERATIONS

PRODUCTS AND SERVICES

In accordance with the strategic guidelines of the Bank's operations, in 2021, intensive commercial activities aimed at the retail sector and small and medium-sized enterprises continued. Despite strong competition, regulatory requirements and pandemic business conditions in the first half of the year, which affected costs and profitability, the Bank achieved growth in strategic segments and good business results, guided primarily by customer satisfaction, competitiveness and flexibility in providing financial support to clients.

The Bank has successfully responded to the growing needs and expectations of individuals, small entrepreneurs and businesses, as well as target customers, by advancing its offer and investing in the development of new technologies.

In the year that was marked by the pandemic and in which retail capacities were limited for awhile, the need for ensuring business continuity was recognised and a series of measures were implemented to ensure the accessibility of services to customers. The continued intensification of activities focused on the retail segment reflects the aspiration of Podravska banka to provide its services as effectively and as broadly as possible to the large number of customers from different generations and sees this as its strongest niche and long-term sustainable profitability.

During 2021, the Bank initiated the process of positioning as a new digital competitor on the market along with the process of rebranding of its visual identity, products and services. During the year, the Bank began to apply a new concept of marketing strategy that is more focused on digital communication with customers. New digital channels have been opened and the amount of investment in the digital segment has increased. The turnaround in the marketing strategy will be complete when the digitalisation process is completed in 2022 and customer services and platforms become highly digitized.

Through smarter investments in advertising, systematic monitoring of competition, adjustments in the Bank's offer in line with the expectations of the target market, improvement of business processes, development of new products, employment, education and motivation of sales staff, the Bank's operations grew in all segments. Product and service management activities over the past year have been largely marked by adaptation to changes in the environment as well as in customer expectations. Dur-

ing the year, the product offer was refreshed with new transaction and savings and investment products for both corporate and retail clients.

In 2021, the business network also organized a large number of internal and external trainings at which employees gained new knowledge and skills in order to provide the best possible quality of services for their clients. Special attention was paid to education in sale of investment and savings and investment products, and new investment funds and voluntary pension savings were introduced as complementary services to savings products. Savings and investment products are an important part of the offer and in 2022 the development of this part of operations will continue with a focus on the digitalization of investment process in savings and investment products.

The Bank also continues with receiving deposits from German citizens using a web-based platform in cooperation with Raisin GmbH, a market leader in this type of business in the German market. This allows German customers to invest their funds in EU member states through a sophisticated online platform.

In the retail segment, in addition to cash and housing loans, past year was also marked by the demand for loans with purpose of settlement of liabilities to other banks, as well as energy efficiency project funding loans for residential buildings, which was recognised as an additional opportunity to acquire new customers, both individuals and businesses engaged in residential facility management.

In 2021, the Bank participated in the programme of the Real Estate Agency (APN) for the financing of purchase of real estate, i.e. building of houses through subsidised housing loans, as an assistance measure by the Government of the Republic of Croatia to facilitate the meeting of Croatian citizens' housing needs through the partial repayment of housing loans.

In the card business segment, a new type of current account card, the Mastercard debit card was introduced. Technological advancement enables greater acceptance at points of sale around the world, while its modern design has made a step forward compared to the traditional perception of the card as a mean of payment. In addition, integration was carried out with the EFTPOS hub system, which enabled the Bank to connect with retailers using singlePOS solutions at checkouts. This paved the way for negotiating the acceptance of bank cards with large retailers with a full range of services such as installment payments or deferred payment.

The digital service is the central element of the business strategy of Podravska Banka for the upcoming years. Since today's consumers demand a simple and modern interaction with the Bank, the Bank's aim is to enhance their user experience (through a fluid use of all distribution channels), and to optimise business processes. In addition to a competitive offer, a recognisable brand and a stable customer base, the Bank continues to develop operations in order to improve the products and services portfolio and business processes, as well as to develop and integrate all of the Bank's digital channels.

DEPOSIT OPERATIONS

Total customer deposits as at 31 December 2021 amounted to HRK 3.1 billion and increased by 12.8% compared to the previous year. According to the sectoral structure of customer deposits, as at 31 December 2021, corporate deposits amounted to HRK 973.3 million and increased by 26.7%, while retail deposits amounted to HRK 2.1 billion and increased by 7.5%.

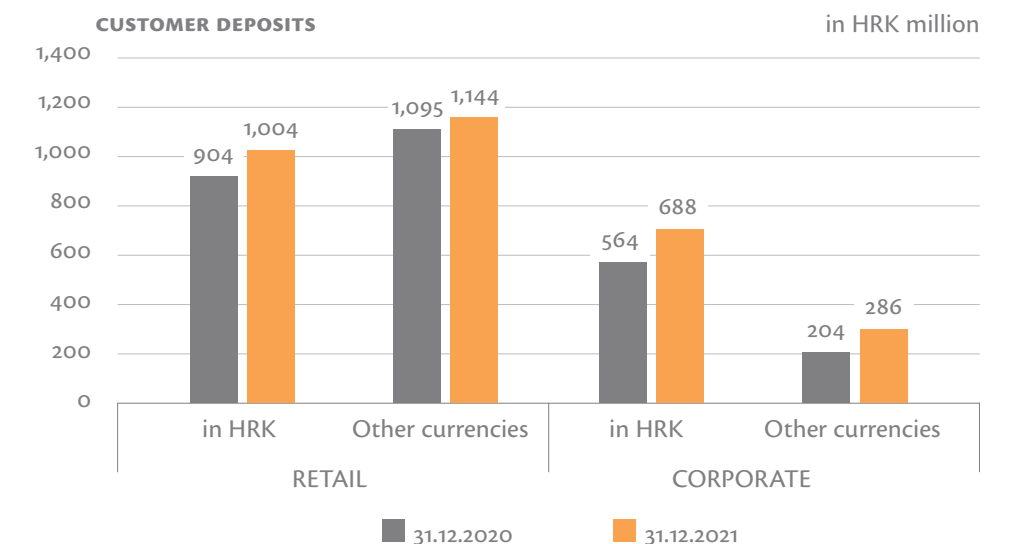
Value of clients' assets in custody as of 31 December 2021 amounted to HRK 911.3 million and increased by 17.3% compared to the previous year.

CLIENT DEPOSITS (IN HRK 000)	31 DEC 2021	31 DEC 2020	CHANGE 2021/2020
RETAIL	2,147,979	1,998,661	7.47%
CORPORATE	973,381	768,408	26.67%
TOTAL DEPOSITS	3,121,360	2,767,069	12.80%

RETAIL (IN HRK 000)	31 DEC 2021	31 DEC 2020	CHANGE 2021/2020
CROATIAN KUNA	1,004,251,337	903,967,172	11.09%
FOREIGN CURRENCY	1,143,728,014	1,094,693,498	4.48%
TOTAL DEPOSITS	2,147,979,351	1,998,660,670	7.47%

CORPORATE (IN HRK 000)	31 DEC 2021	31 DEC 2020	CHANGE 2021/2020
CROATIAN KUNA	687,790,558	564,210,092	21.9%
FOREIGN CURRENCY	285,590,883	204,198,331	39.86%
TOTAL DEPOSITS	973,381,441	768,408,423	26.67%

According to the currency structure, in the retail segment, the share of kuna deposits slightly increased to 47%, while the share of foreign currency deposits decreased to 53%. In corporate segment, the share of kuna deposits decreased slightly to 71%, while the share of foreign currency deposits increased to 29%.

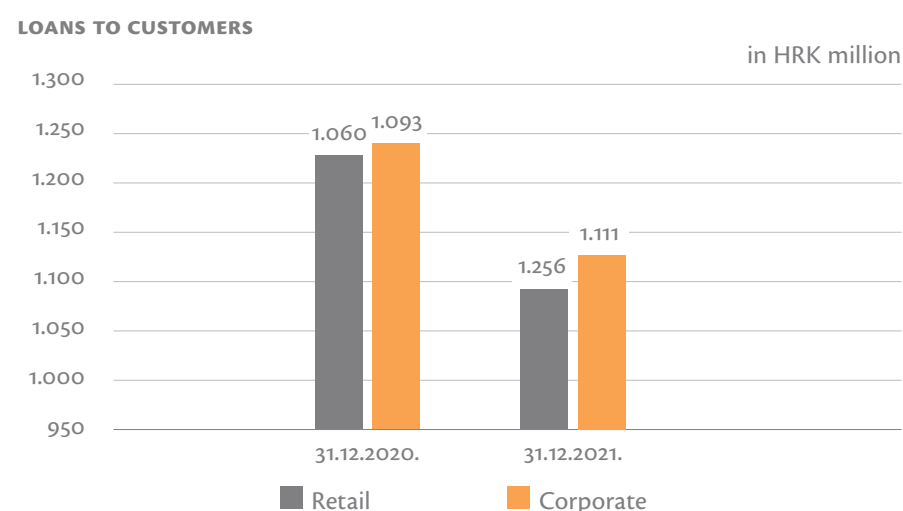


LENDING

Total gross loans to customers as at 31 December 2021 amounted to HRK 2.4 billion, 9.7% more than the previous year. If analysed by sectoral structure, as at 31 December 2021, corporate loans amounted to HRK 1.1 billion and increased by 1.2%, while retail loans amounted to HRK 1.26 billion and recorded a significant increase of 18.5%.

TOTAL LOANS TO CUSTOMERS (IN HRK 000)	31 DEC 2021	31 DEC 2020	CHANGE 2021/2020
TOTAL GROSS LOANS	2,367,067	2,153,380	9.70%
RETAIL	1,255,631	1,060,066	18.45%
CORPORATE	1,111,436	1,093,314	1.22%
TOTAL RESERVES ON LOANS	(204,854)	(224,117)	-8.61%
TOTAL NET LOANS	2,162,213	1,929,263	11.83%

In the structure of total retail loans, the largest share is cash (33.6%) and housing loans (21.2%). In the structure of corporate loans, the largest share of placements is to the wholesale and retail trade sector (21.9%), manufacturing industry (17.5%) and agriculture and forestry (10.8%).



During the past year, in addition to strengthening of standard products and services to entrepreneurs, a step was made in the direction of digitalization of products that further strengthen the Bank's position, in order to meet the needs of the corporate segment. New packages of transaction accounts for business entities suitable for different types of entrepreneurs and their needs have been introduced in the offer. Also, all programs available to commercial banks were implemented, to which the Republic of Croatia, through implementing institutions (HBOR and HAMAG-BICRO), issues guarantees to cover their exposures to the Bank.

Furthermore, the agreement on business cooperation continued with the Croatian Bank for Reconstruction and Development (HBOR) in guarantee programmes for large entrepreneurs and the Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO) for micro, small and medium-sized entrepreneurs, on the basis of which the Bank may cover new corporate loans by government guarantees as much as up to 100%, depending on the degree to which the industry within which an entrepreneur is operating has been affected.

Over the past year, the Bank focused on economic activities that could be found to be least affected by the pandemic - such as agriculture and food production, primarily healthy food, health food trade, energy and IT activities, and to a lesser extent construction and trade.

The cooperation with the local government and self-government continued in the implementation of credit programmes in which the local government and self-government subsidised the interest on corporate loans, all with the aim of strengthening economic activities in local areas and the protection and the recovery of entrepreneurs affected by the pandemic.

The Bank has agreed business collaboration with counties, which provide subventions to support entrepreneurs and strengthen their development in the county territory, primarily with Koprivnica-Križevci County, Bjelovar-Bilogora County, Primorje-Gorski kotar County, Zagreb County, the City of Rijeka and the City of Zadar.

Through the mentioned collaborations, the Bank disperses its engagement in the markets of new corporate clients on the whole territory of the Republic of Croatia and helps the development of the entrepreneurs with good, profitable and safe projects, which are also supported by the local government.

The projects that will be supported are those eligible and profitable due to their optimum maturity, if possible covered by government guarantees or the programmes of risk sharing with state-owned banks represent the minimum risk for the Bank.

A significant share of products and services in 2021 was placed to customers engaged in agricultural activities and utilising grants from EU funds, as well as to customers which invested in renewable energy sources.

The Bank recognizes the need for more intensive care for the environment and accordingly supports the financing of clients who are oriented towards environmentally friendly activities. Based on the conducted analysis, at the end of the current year, the share of exposures of clients engaged in environmentally friendly activities amounted to 11% of the Bank's total assets.

The trend of withdrawing grants will continue in 2022. This is also supported by the cooperation between the Bank and its business partner Maxim Consulting (Maksima savjetovanje), which prepares the eligibility analyses of applications for tenders for grants from EU funds for Bank's customers.

FINANCIAL MARKETS DIVISION

The Financial Markets Division continued to operate in an environment of historically low yields and the low cost of money, allowing positive business results to be reported by all of the Treasury's desks.

The surplus of kuna liquidity was invested mainly in short-term bond funds, government bonds in the capital market, domestic and foreign equity securities focusing on issues with a substantial dividend yield and the domestic issues of debt securities, which to the largest extent related to central government debt. The Bank was active in the primary and the secondary market of the government bonds of the Republic of Croatia and in the fine-tuning operations of the Croatian National Bank.

Due to the expected inflationary pressures and the likely tightening of central banks' monetary policy, the Financial Markets Sector continued to work on maintaining the risk structure of the portfolio over the past year, resulting in a structure in which 81.1% are investment-rated issues.

The debt securities portfolio increased by HRK 54.0 million and amounted to HRK 730.9 million at the end of the year. Government bonds of the Republic of Croatia and corporate issues of issuers from the Republic of Croatia, whose share in the portfolio is 69.7%, still play a dominant role in the portfolio. In the currency structure of the portfolio, the kuna segment amounts to 51.0%, the share in euros to 33.1%, and the share of the dollar segment to 12.7%.

In the structure of the stock portfolio assets, the share of foreign shares is 43%, while according to the currency structure, the share of the dollar segment is 27%, and the share of the euro segment is 17%.

During 2021, the Financial Markets Sector increased its exposure to equity securities with an attractive dividend yield, and accordingly, dividend income in 2021 increased by 48.7% compared to 2020.

In addition to securities management, in 2021 the emphasis was placed on the active management of the Bank's open foreign exchange position, which had very positive effects. Given the pandemic conditions, all major central banks have continued to pursue highly expansionary monetary policies to support the economy. The US Fed maintained a reference interest rate of 0-0.25 percent throughout the year and spent most of the year implementing a program to purchase government bonds (USD 80 billion per month) and US government bonds (USD 40 billion per month). The reduction in the bond purchase program began in December 2021 when the amount of purchases was reduced by USD 15 billion (USD 10 billion in government bonds and USD 5 billion in government agency bonds).

The ECB has also continued to maintain a low level of key interest rates and a number of unconventional monetary policy measures, such as the Pandemic Emergency Purchase Program (PEPP), in order to maintain financial stability and favourable financing conditions for all sectors of the economy.

PAYMENT OPERATIONS

Successful and secure functioning of payment operations is extremely important for the economic system of each country and beyond. The provision of payment services to businesses and consumers requires credit institutions to adapt quickly and constantly to new business conditions.

The past business year, marked by the pandemic, measures of social distancing, isolation and quarantine, has influenced the change in the behaviour of a large number of business entities and clients. By timely investing in the business network and applications (ATM network for cash disbursement and payment and bill payment, card business development, payment via mobile phones and the Internet), the Bank ensured the availability of payment services to customers without coming to the Bank's premises.

The provision of payment services was possible with many digital and strategic transformations, and a new infrastructure was built, which is an important prerequisite

for further development and harmonization of payment systems with international standards. For clients, this means that the Bank provides payment services in an efficient, compatible way with the payment systems of the European Union.

The result is an increase in the Bank's total payment operations in 2021 by 8.8% compared to 2020. The number of non-cash transactions executed through payment systems increased by 9.2%, national payment growth increased by 8.7%, and cross-border and international transactions increased by 12.7%. Cash payments measured by the number of transactions are at the same level as in 2020, but the amount of transactions increased by 7.7%.

The increase in the number of executed transactions through online channels is especially significant for 2021. Clients recognized the advantages of the service and consequently the number of transactions through these channels in the national payment system increased by 15%. Cross-border and international payment transactions via online channels increased by 29.3%.

In 2021, the Bank continued to purchase and sell equity and debt securities on the domestic and foreign markets for its own account and for the account of its clients. It used the settlement and storage services of Euroclear Bank Brussels and the value of executed settlement or purchase settlements amounts to over HRK 489 billion. The Bank is also an active participant in the capital market and a payment transactions in the amount of HRK 590 million was performed through the CDCC. According to the plans and conditions on the capital market, the Bank invested in foreign and domestic funds and a settlement in the amount of over HRK 60 million was made.

In mid-2021, based on the adopted National Plan for the Exchange of the Croatian Kuna with the Euro, the Bank launched a project to introduce the euro and consolidate the existing Target 2 system. Numerous advantages are expected to be brought for both the Bank and its clients in the upcoming years, and many of them are interconnected and have a synergistic effect.

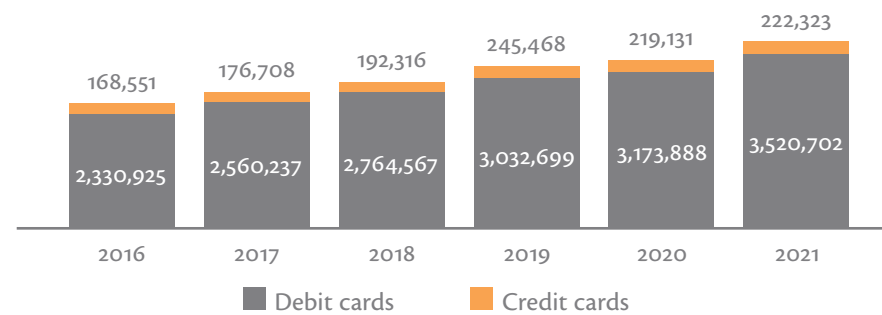
Thanks to the euro, businesses and consumers will be able to buy and sell goods more easily and transparently, because according to the European Union, the euro is the currency chosen for almost 40% of global cross-border payments and almost half of EU exports. Croatia will be better integrated, have access to efficient financial systems, currency risk and costs related to changes in market prices will disappear, all of which will lead to improved economic stability and growth.

BUSINESS NETWORK AND DIRECT CHANNELS

At the end of 2021, the Bank's sales network consisted of a total of 22 branches spread across almost the whole of Croatia. Apart from the well-developed sales network, banking services are also available to customers through other distribution channels – POBAklik online banking and mPOBA mobile banking services, ATMs, day-night safety vaults and EFTPOS terminals. Business information is also available to the users of services through the Info Centre.

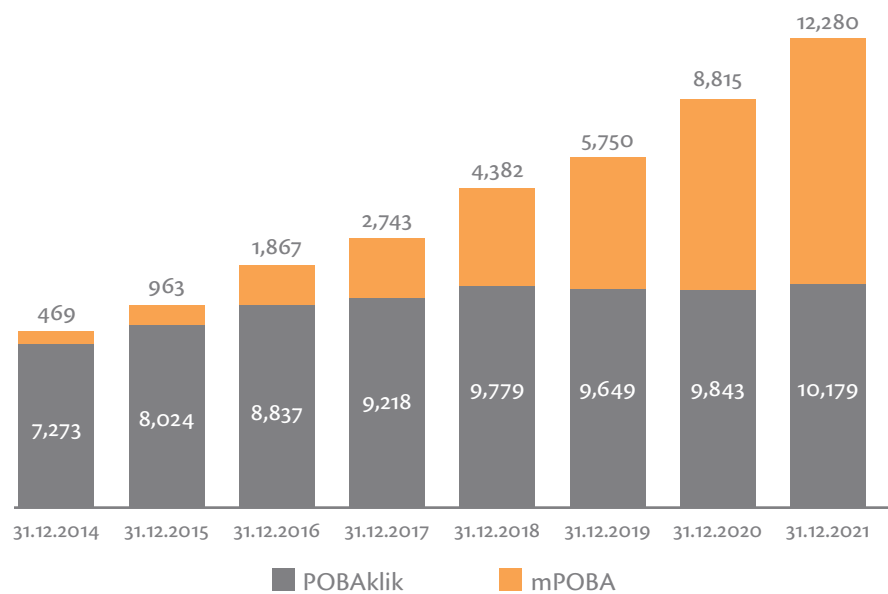


NUMBER OF CARD TRANSACTIONS



The Bank's ATM devices accept Maestro, Mastercard, VISA, American Express and Diners cards. In addition to the Bank's own ATM network, the Bank offers its customers free-of-charge cash withdrawals at over 1,000 ATMs within the MB NET throughout Croatia. In addition, the Bank has 489 EFTPOS terminals installed. In 2020, 415 thousand transactions were executed through the EFTPOS terminals, or 876 transactions per EFTPOS terminal on average.

NUMBER OF USERS OF ELECTRONIC SERVICES



The number of payment card transactions is also on the rise. At the end of 2021, compared to the year before, the number of card transactions increased by over 10%. The total number of users of electronic services also increased by 20.4% at the end of 2021 compared with the previous year. The largest increase was recorded by the mobile banking service (mPOBA), which was used by over 40% more users than in 2020, while the number of online banking (POBAklik service) users held steady with a notably small increase due to the trend of existing users migrating to the benefit of the mobile banking service.

In the future, customer needs and preferences will be covered by integrated distribution channels. For this reason, within the scope of the digitalisation project as the strategic determinant, the Bank will continue improving its communication channels and customer follow-up activities at its branches, through the internet, self-service devices, the telephone and mobile devices.

ORGANISATION AND STAFF

As at 31 December 2021, the Bank had 228 employees, which is 3% less than in the previous year. During 2021, 5 people were employed, mostly specialists in the field of risk and commercial sector. In the same period, 15 people left the Bank. The employee turnover rate in 2021 was 6.5%.

The average age of employees was 46, with female employees accounting for 68.8% of the total staff, and 52.0% of the total number of employees having university undergraduate and graduate degrees. The front-office staff account for 56.0% of the Bank's employees.

The optimisation of business processes is implemented continuously by implementing new application software, which, in addition to the development of digitalisation and organisational changes in operations, results in the constant improvement of business processes, increased efficiency and optimised operations. Great attention is paid to advanced training of employees through various forms of in-house and externally organised education, which was attended by almost two thirds of the employees during the year.

In parallel with investing in the advanced training of its staff, in dialogue with the union, the Bank reacted in a timely manner and proactively and undertook activities related to the pandemic to protect its customers and employees. All employees and the corresponding workplaces are equipped with the required protective gear (masks, gloves, disinfectants, plexiglas barriers at counters and in offices, etc.). In order to minimise the impact of the pandemic on regular operations and the provision of services, technical and security preconditions were provided for organising work from home, mostly for the employees of centralised services.

In 2022, the Bank intends to strengthen the management of all risks to which the Bank is exposed in its operations, primarily by strengthening activities for early collection of overdue and outstanding receivables and managing risky placements of the Bank, in order to minimize credit risk as the most significant risk. The Bank will continue to invest in the professional development of employees, and if necessary, employ competent and professional persons, primarily in the field of risk management, human resources management and specialists in the field of customer service in accordance with the development of the Business Network.

CAPITAL

At the end of the business year, the Bank's capital amounted to HRK 496.6 million and participated with 11.8% in the Bank's total sources of financing. Compared to the previous year, total capital increased by 5.8 million or 3.1% compared to the previous year. The increase in capital is a consequence of the distribution of the total profit of the previous year in the Bank's reserves, the achieved business result of the current year and increase in retained earnings due to the sale of securities, as well as the slight increase of unrealised gains from financial instruments measured through other comprehensive income.

The share capital amounts to HRK 267.5 million and consists of 668,749 ordinary registered shares, each with a nominal value of HRK 400.00. As at 31 December 2021, the Bank has a total of 3,324 treasury shares booked at cost.



No significant changes were recorded in the shareholder structure in 2021. As in the previous year, a group of foreign equity holders (both private individuals and legal persons), considered to form a single group, held 86.9% of the Bank's shares.

At the end of 2021, regulatory capital amounted to HRK 504.5 million, of which HRK 436.0 million related to share capital and HRK 68.5 million to Tier 2 capital. Tier 2 capital includes the unamortized part of two issues of subordinated bonds issued in the total amount of HRK 70.7 million. The regulatory capital ratio at the end of 2021 was 19.2%.

PROFIT AND LOSS ACCOUNT

In 2021, the Bank generated a profit before tax in the amount of HRK 19.5 million, while the net profit for the current year amounted to HRK 15.2 million and was higher by 28.9% compared to the previous business year. The realized increase was achieved primarily due to the increase in the Bank's lending activities and clients' business activities in general, as well as savings in operating costs.

Net interest income amounts to HRK 89.4 million and is higher by HRK 2.8 million, ie by 3.3% compared to the previous year. Interest income increased by 0.4% compared to 2020, while interest expenses decreased by 18.2% compared to the previous business year.

In the structure of interest income, the share of interest income from retail segment is 52.8%, the share of interest income of corporate clients is 35.2%, while the remaining part relates to income from other clients. In interest expenses, the largest part refers to individuals who participate with 49.4%, 39.1% relates to the costs of banks and the remaining 11.5% refers to the interest expenses related to other clients.

Net income from fees and commissions amounts to HRK 26.0 million, which is HRK 2.9 million more than in 2020 and represents an increase of 12.7% compared to the previous business year. During 2021, HRK 5.9 million more revenue from fees and commissions was generated compared to 2020, while the costs of fees and commissions increased by HRK 3.0 million compared to the same period last year. Other net operating income decreased by HRK 6.6 million compared to the previous year, mainly due to reduced effects from securities operations.

In the structure of the Bank's operating income, the share of net interest income is 67.1%, and net fee and commission income 19.5%. Net income from the sale of securities, income from foreign currency trading and other income account for 13.4% of total operating income. Of the realized 17.8 million other net revenues, the largest part relates to revenues from the foreign currency trading in the amount of HRK 5.7 million and net gains from securities in the amount of HRK 3.8 million.

Total administrative expenses, which include material costs and services and personnel costs, decreased by 5.2% compared to 2020, and due to new investments mostly in software and hardware and the impact of leases under IFRS16 throughout 2021. Depreciation costs increased by 17.7%. As of January 1 this year, the Croatian Deposit Insurance Agency suspended the collection of deposit insurance premiums from commercial banks until further notice, resulting in savings in premium costs of HRK 6.1 million compared to the same period last year.

After impairment and provisions costs in the amount of HRK 19.8 million, Podravska

banka concludes the business year 2021 with a net profit of HRK 15.2 million, which is an increase of HRK 3.4 million or 28.9% compared to the previous year, achieving business results in accordance with the budget in almost all business segments.

MANAGEMENT AND GOVERNANCE

Corporate governance code statement

In accordance with the provisions of Article 272p, the Management and Supervisory Boards hereby declare that Podravska banka d.d. applies the Corporate Governance Code developed jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. The Bank applies the prescribed corporate governance measures, including explanations of certain derogations within the Questionnaire, where appropriate.

The information about internal controls and risk management as well as about the Bank's shareholders is provided in the Notes to the Financial Statements. The rules on the appointment and removal of Management Board Members are contained in the Statute of the Bank.

Bank's shareholders exercise their rights at the General Assembly of the Bank, which decides on the issues determined by law and the Bank's Statute. The General Assembly is convened by the Management Board of the Bank and it must be convened when requested by the Supervisory Board, the Management Board or the shareholders, in accordance with law. Shareholders who wish to participate in the work of the General Assembly in person or by a proxy must notify their participation in writing no later than by the fifth day prior to the holding of the General Assembly meeting. Each ordinary share of the Bank, with a nominal value of HRK 400.00, gives its holder the right to one vote.

The number of Management Board Members of the Bank is determined by the Supervisory Board, and pursuant to its decision the Management Board of the Bank consists of three members, the President and two Members. Goran Varat serves as the President of the Management Board while Renata Vinković and Daniel Unger serve as members of the Management Board. Snježana Pobi, Sanda Fuček Šanjić and Moreno Marson and Božana Kovačević are the procurators. The Supervisory Board adopts decisions regarding proposed Members and the President of the Management Board of the Bank, who must meet the requirements specified by the legislation governing credit institutions operations and other relevant regulations. After obtaining a prior approval of the Croatian National Bank, the Supervisory Board appoints the resident and Members of the Management Board to a term of five years with a possibility of reappointment. The Supervisory Board may revoke its decision on the appointment of the President or a Member of the Management Board, provided that there is just cause to do so in accordance with the applicable law, and the President and Members of the Management Board may submit their resignation in writing.

The powers of the Bank's Management Board are defined in the Companies Act, the Credit Institutions Act, the Bank's Statute and a separate decision which has been adopted regarding the segregation of the duties and responsibilities of the Management Board Members. The Bank's Management Board manages the business of the Bank and its assets, and is obliged and authorised to undertake activities and adopt decisions necessary for the successful management of Bank's business.



The Supervisory Board has nine members elected and recalled by the General Assembly. The two members of the Supervisory Board are independent. Only a person who meets the conditions prescribed by laws and regulations governing the operations of credit institutions and who has obtained the prior consent of the Croatian National Bank to perform the function of a member of the Supervisory Board may be elected a member of the Supervisory Board.

The powers of the Supervisory Board are regulated by laws and bylaws and the Bank's Articles of Association. In accordance with legal regulations, the Supervisory Board established as its subsidiary body, the Audit Committee and the Risk Committee.

During 2021, five regular meetings of the Supervisory Board were held, and in addition, the Supervisory Board decided in writing, whenever individual decisions had to be made without delay, mainly on the Supervisory Board's consent to the Bank's exposure to individual clients in accordance with legislation. All members of the Bank's Supervisory Board were present at each meeting.

The Bank's Supervisory Board has the following committees: the Audit Committee and the Risk Committee. The scope and manner of work of these committees is regulated by the rules of procedure of each committee, in accordance with the relevant legal regulations. The members of these committees are appointed from the ranks of the Supervisory Board.

Risk Committee members:

Sigilfredo Montinari – president of the Committee
Dolly Predović – member of the Committee
Dario Montinari – member of the Committee
Miljan Todorovic – member of the Committee
Ezio Simonelli – member of the Committee

Audit Committee members:

Dolly Predović – president of the Committee
Michele Calcaterra Borri – member of the Committee
Sigilfredo Montinari – member of the Committee
Dario Montinari – member of the Committee
Miljan Todorovic – member of the Committee

During 2021, the Audit Committee and the Risk Committee held four meetings in the presence of all members of the Committee and at which they discussed within their powers and responsibilities in accordance with the Bank's internal acts.

The Rules on Amendments to the Bank's Articles of Association are contained in the Articles of Association. The decision on amendments shall be made by the General Assembly of the Bank in accordance with the law and the Articles of Association, by votes representing at least three quarters of the share capital represented at the General Assembly.

Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board and the Bank's shareholders. In order to protect the interests of all investors, shareholders, clients, employees and others who have an interest, the Bank has established high standards of corporate governance.

ORGANISATIONAL STRUCTURE OF PODRAVSKA BANKA





**FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2021
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT**

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF ANNUAL FINANCIAL STATEMENTS



Tel: +385 1 2395 741
Fax: +385 1 2303 691
E-mail: bdo-croatia@bdo.hr
BDO Croatia d.o.o.
10000 Zagreb Trg J. F. Kennedy 6b

The Management Board of the PODRAVSKA BANKA d.d. (the "Bank") is required to prepare financial statements which give a true and fair view of the financial position of the Bank and the results of its operations and cash flows, in accordance with International Financial Reporting Standards as established by the European Commission and published in the Official Journal of the European Union (IFRS), and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board 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 judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its of annual report for the Bank and the Group 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 financial statements of the Bank on pages 12 to 98 were approved by the Management Board on March 29, 2022 for the purpose of their submission to the Supervisory Board, which is confirmed by the signature below.

The financial statements were approved by the Bank's Management Board on 29 March 2022 and signed by:

Goran Varat	Daniel Unger	Renata Vinković
President of the Management Board	Member of the Management Board	Member of the Management Board
		
		Koprivnica, 29 March 2022

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Podravska banka d.d., Koprivnica

The report on the audit of the annual financial statements

Opinion

We have audited the financial statements of Podravska banka d.d., Opatička 3, Koprivnica ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies (further referred to as "the annual financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the Bank's financial position as at 31 December 2021, and its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the financial statements of the current period and include most significant recognized risks of significant misstatement as a result of error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team. We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

We have determined that the following matters were key audit matters and should be published in our Independent Auditor's report.

Impairment of loans to customers

As at 31 December 2021, gross loans to customers in the financial statements amount to HRK 2,367.1 million, related impairment allowance amounts to HRK 204.9 million and impairment loss recognised in the income statement amounts to HRK 8.3 million (31 December 2020: gross loans to customers: HRK 2,153.4 million, impairment allowance: HRK 204.9 million, impairment loss recognised in the income statement: HRK 20.8 million).

Key audit matter

We focused on this area due to the significance of the related amounts in the Bank's annual financial statements and also because of the nature of the judgements and assumptions that management are required to make.

Impairment represents the Management's best estimate of the risks of default and expected credit losses within the loan portfolio to customers at the reporting date.

IFRS requires Management to make judgments about the future and various items in the Bank's financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans to customer are significant estimates.

The key areas of judgement associated with credit loss allowances for loans to customer are the identification of loans that are deteriorating, the assessment of significant increase in credit risk, forecasts of future cash flows, expected proceeds from the realization of collateral and determination of the expected credit losses of loans to customers which are all inherently uncertain.

The impairment allowance is measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding HRK 3 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral.

Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis.

Impairment allowances for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below HRK 3 million individually (together "collective impairment allowance") are determined by modelling techniques.

Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking

How we addressed the key audit matter

In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

Our audit procedures in this area included, among others:

- reviewing the methodology of the Bank and the Group for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 Financial instruments within statutory reporting framework ("IFRS 9"),
- obtaining an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the expected credit loss model,
- evaluating the design, implementation, and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans,
- testing the design, implementation, and operational effectiveness of selected key controls in the areas of customer rating, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances,
- testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies,
- evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)
- testing the adequacy of individual loan loss allowances, on a sample basis, 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,
- conducting an evidentiary test of the selected sample to assess the correctness of the loan classification,
- testing on the sample size basis the input information used in the provisioning process through, accuracy of

information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit.

Related disclosures accompanying the annual financial statements

For additional information, see Note 2 to the Annual Financial Statements, which discloses accounting policies, Note 6 Impairment losses and provisions, and Note 14 Loans to customers.

the calculations by the IT applications and output information from the provisioning process for consistency and mathematical accuracy,

- in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank,
- critically evaluating the impact of COVID 19 pandemic on impairment allowances for expected credit losses and assessing the local regulatory framework impacted by COVID 19 pandemic,
- evaluating the accuracy and completeness of the financial statement disclosures..

Valuation of investment property

As at 31 December 2021, the Bank's investment properties amount to HRK 35.2 million (31 December 2020: HRK 41.2 million). During 2021, the Bank conducted the assessment and valuation of investment properties. Based on the valuation carried out by independent qualified valuers (the "Valuers"), Bank decreased the value of the investment properties, more specifically as a result of a change in the key assumptions of the aforementioned valuations compared to the previous period, recognized a decrease in the value of Bank's investment properties in the amount of HRK 0.6 million (in 2020: a decrease of HRK 0.5 million).

Key audit matter

The Bank has significant repossessed assets obtained as part of collection of nonperforming loans.

The assets classified as investment properties mainly refers to the repossessed assets obtained as part of collection of nonperforming loans, and part relates to properties owned by the Bank, not intended for the ordinary course of business and is leased for the purpose of generating rental income.

The underlying investment properties are measured at fair value model under IAS 40, with changes in fair value recognised in profit or loss in the period that they arise. Fair value is based on the valuation carried out by independent qualified valuers. Management is required to continuously review the credibility of valuations carried out by independent qualified valuers due to their significance and because significant judgement is involved in determining the inputs used in the valuation (such as future rental income, discount rate applied, and market comparison correction factors).

We identified the valuation of investment properties as a key audit matter due to their significance and because significant judgement is involved in determining the inputs used in the valuation.

Related disclosures accompanying the annual financial statements

For additional information see note 2 Significant accounting policies and note 16 Investment property.

How we addressed the key audit matter

Our procedures in relation to the valuation of the investment properties included:

- assessing the appropriateness and reasonableness of the valuation methodology,
- assessing the expertise and independence of the qualified valuers,
- on a sample basis, based on evidence of comparable market transactions and other publicly available information of the property industry, we assessed key assumptions and estimates used in the valuations,
- we tested the adequacy of projected cash flows in terms of determining the estimated value of properties by revenue method with supporting lease agreements,
- we considered the valuation methodologies used against those applied by other valuers for similar property type,
- we considered the adequacy of the disclosures in the financial statements and whether the disclosures are compliant with IAS 40.

Other information

Management is responsible for the other information. The other information comprises of the information included in the Annual Report but, does not include the separate and consolidated annual financial statements and our Independent auditor's report on them.

Our opinion on the annual financial statements does not include other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In connection with our audit of the separate and consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report

The Management Board is responsible for compiling the Management Report for the Bank as an integral part of the Bank's Annual Report. With respect to the Management Report of the Bank and The Statement on the Implementation of Corporate Governance Code, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report of the Bank has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the specific information in The Statement on the Implementation of Corporate Governance Code required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Implementation of Corporate Governance Code") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act

Based on the work that we performed during the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Board Report of the Bank and the relevant sections of The Statement on the Implementation of Corporate Governance Code as part of the Annual report of the Bank for the year 2020 are in accordance with the financial information stated in the annual financial statements of the Bank set out on pages 10 to 91 on which we expressed our opinion as stated in the Opinion section above;
- the information given in Management Board Report of the Bank and the relevant sections of The Statement on the Implementation of Corporate Governance Code is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Implementation of Corporate Governance Code includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 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 Annual report. We have nothing to report in this respect.

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

The Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, and for such internal controls as the Management determines necessary to Responsibilities of Management and those charged with Governance for the Annual Financial Statements.

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

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

Auditor's Responsibility for the Audit of the Annual Financial Statements

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

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

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

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

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

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

Report on other legal requirements

On 29 June 2021, the General Assembly of the Bank appointed us to conduct an audit of the Bank's annual financial statements for 2021.

On the date of this Independent Auditor's Report we have been continuously engaged in carrying out the statutory audit of the Bank's annual financial statements for 2019, 2020 and 2021, which amounts to a total of 3 years.

In the audit of the Bank's annual financial statements for 2021, we have determined the following materiality levels for the financial statements as a whole:

- for the annual financial statements: HRK 9.9 million

which represents approximately 2% of the of the Bank's net assets for 2021.

We chose Net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is commonly measured by users, and is a generally acceptable benchmark.

Our audit opinion is consistent with the additional report for the Bank's auditing board, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the starting date of the Bank's audited annual financial statements for 2021 and the date of this Report, we did not provide prohibited non-audit services to the Bank and did not provide services for designing and implementing internal control or risk management procedures related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained our independence from the Bank in performing our audit.

Based on the Decision of the Croatian National Bank on the structure and content of the annual financial statements of banks (OG 42/18 and 122/20), the Bank's Management Board prepared the forms shown on pages 99 to 119 ("Forms"). The financial information set out in the Forms is consistent with the information set out in the annual financial statements set out on pages 12 to 98 on which we have expressed an opinion as set out in the Opinion section above.

Based on the obligation arising from the Credit Institutions Act (OG 159/13, 19/15, 102/15, 15/18, 70/19, 47/20 and 146/20), the Bank presented the requested information on pages 120 to 121 which contains all the information required by Article 164 (1). The information presented is derived from the Bank's financial statements set out on pages 12 to 98 on which we have expressed an opinion as set out in the Opinion section above.

Report based on the requirements of the ESEF Regulation

Auditor's assurance report on the compliance of annual separate and consolidated financial statements (hereinafter: financial statements), prepared pursuant to the provision of Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/20 and 83/21) by applying the Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We conducted the engagement with expressing reasonable assurance as to whether the financial statements prepared for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, which are contained in the electronic file Godišnji financijski izvještaj Podravske banke 2021, in all material aspects prepared in accordance with the requirements of the ESEF Regulation

Responsibilities of Management and those charged with governance

The Bank's Management is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation.

In addition, the Bank's Management is responsible for maintaining a system of internal controls that reasonably assures the preparation of financial statements without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error..

The Bank's Management is also responsible for:

- public disclosure of the financial statements contained in the annual report in a valid XBRL format, and
- selection and use of XBRL codes in accordance with the requirements of the ESEF Regulation.

Those in charge of governance are responsible for overseeing the preparation of financial statements in the ESEF format as part of the financial reporting process.

Auditor's responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

Procedures performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance. However, it does not assure that the scope of testing will reveal all significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we have performed the following activities:

- we have read the requirements of the ESEF Regulation,
- we have gained an understanding of the Bank's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and
- based on that, we have planned and designed procedures for responding to assessed risks and for obtaining reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the financial statements are prepared in the valid XHTML format,
- the information contained in the financial statements required by ESEF Regulation, are labelled and all labels meet the following requirements:
- XBRL markup language was used,
- the elements of the basic taxonomy listed in the ESEF Regulation with the closest accounting meaning were used, unless an additional element of taxonomy has been created in accordance with Annex IV ESEF Regulations,
- the labels comply with the common labelling rules under the ESEF Regulation.

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

Conclusion

In our opinion, based on the procedures performed and the evidence obtained, the financial statements presented in ESEF format, contained in the above-mentioned electronic file and based on the provision of Article 462, paragraph 5 of the Capital Market Act prepared for the purposes of public disclosure, in all material respects are in line with the requirements of the ESEF Regulation for the year ended 31 December 2021.

Our conclusion is not an opinion on the truthfulness and fair presentation of the financial statements presented in electronic form. In addition, we do not express our assurance in other information published with documents in ESEF format.

The partner engaged in the audit of the Bank's annual financial statements for the year 2021 resulting in this Independent auditor's report is Ivan Čajko, certified auditor.

In Zagreb, 29 March 2022

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b

BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb

Ivan Čajko,
Member of the Management Board and certified auditor

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

IN HRK THOUSANDS	NOTE	2021	2020
INTEREST AND SIMILAR INCOME	3	100,441	100,050
INTEREST AND SIMILAR EXPENSE	3	(11,062)	(13,518)
NET INTEREST INCOME		89,379	86,532
FEE AND COMMISSION INCOME	4	44,264	38,320
FEE AND COMMISSION EXPENSE	4	(18,236)	(15,228)
NET FEE AND COMMISSION INCOME		26,028	23,092
OTHER OPERATING INCOME, NET	5	17,838	24,472
OPERATING INCOME		133,245	134,096
IMPAIRMENT LOSSES AND PROVISIONS	6	(19,830)	(22,262)
ADMINISTRATIVE EXPENSES	7	(82,739)	(87,308)
DEPRECIATION AND AMORTIZATION	8	(11,160)	(9,483)
PROFIT BEFORE TAXATION		19,516	15,043
INCOME TAX EXPENSE	9	(4,282)	(3,224)
NET PROFIT FOR THE YEAR		15,234	11,819
OTHER COMPREHENSIVE INCOME			
NET DECREASE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	15.2.	(5,661)	(4,522)
DEFERRED TAX RECOGNISED IN EQUITY	9	1,019	814
OTHER COMPREHENSIVE LOSS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		(4,642)	(3,708)
NET INCREASE / (DECREASE) IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	15.2.	5,182	(2,160)
DEFERRED TAX RECOGNISED IN EQUITY	9	(706)	531
OTHER COMPREHENSIVE INCOME/(LOSS) THAT IS NOT RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		4,476	(1,629)
OTHER COMPREHENSIVE LOSS		(166)	(5,337)
TOTAL COMPREHENSIVE INCOME AFTER TAX		15,068	6,482
EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS	10	HRK 22.78	HRK 17.67

The accompanying accounting policies and notes on pages 45 to 115 45 to 115 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

IN HRK THOUSANDS	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	744,114	770,596
BALANCES WITH THE CROATIAN NATIONAL BANK	12	177,874	160,232
PLACEMENTS WITH OTHER BANKS	13	6,012	1,390
LOANS TO CUSTOMERS	14	2,162,213	1,929,263
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS STATEMENT	15.1.	171,325	183,533
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	15.2.	769,738	714,122
INVESTMENT PROPERTY	16	35,178	41,247
INTANGIBLE ASSETS	17	49,017	42,623
PROPERTY AND EQUIPMENT	18	46,070	48,982
RIGHT-OF-USE ASSETS	18.1.	13,809	14,895
NON-CURRENT ASSETS HELD FOR SALE	19	262	998
DEFERRED TAX ASSETS	9	4,269	5,151
OTHER ASSETS	20	19,534	24,400
TOTAL ASSETS		4,199,415	3,937,432
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
AMOUNTS DUE TO OTHER BANKS	21	15,917	28,203
AMOUNTS DUE TO CUSTOMERS	22	3,121,361	2,767,069
OTHER BORROWED FUNDS	23	431,667	502,598
OTHER LIABILITIES	24	47,886	54,133
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	14,795	5,350
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	71,206	98,564
TOTAL LIABILITIES		3,702,832	3,455,917
SHARE CAPITAL			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(1,184)	(1,184)
RESERVES	28	204,657	194,263
PROFIT FOR THE YEAR		15,234	11,819
RETAINED EARNINGS		7,361	6,102
TOTAL SHAREHOLDERS' EQUITY		496,583	481,515
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,199,415	3,937,432

The accompanying accounting policies and notes on pages 45 to 115 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

IN HRK THOUSANDS	NOTE	2021	2020
PROFIT FOR THE YEAR BEFORE TAX	9	19,516	15,043
ADJUSTED BY:			
DEPRECIATION AND AMORTISATION	8	11,160	9,483
NET INCOME ON DISPOSAL OF NON-CURRENT TANGIBLE ASSETS	5	(38)	(26)
NET INCOME ON THE SALE OF REPOSSESSED ASSETS	5	(771)	(213)
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	6	19,830	22,262
DIVIDEND INCOME	5	(957)	(644)
NET UNREALIZED (LOSS)/GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	5	1,345	(1,288)
NET FOREIGN EXCHANGE GAIN/(LOSS) FROM ISSUED HYBRID INSTRUMENTS	5	(275)	1,247
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		49,810	45,864
CHANGES IN OPERATING ASSETS			
NET (INCREASE)/DECREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(17,648)	38,667
NET (INCREASE)/DECREASE IN LOANS TO CUSTOMERS		(240,074)	75,781
NET INCREASE IN PLACEMENTS WITH BANKS		(6,032)	-
NET DECREASE/(INCREASE) IN OTHER ASSETS		2,081	(16,136)
DECREASE IN OTHER LIABILITIES		(5,021)	(7,414)
DECREASE IN AMOUNTS DUE TO OTHER BANKS		(12,286)	20,369
INCREASE IN DEPOSITS FROM CUSTOMERS		354,292	60,653
INCOME TAXES PAID		(5,261)	(8,869)
NET CASH FROM OPERATIONS		119,861	208,915
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	18	(1,660)	(9,150)
PURCHASE OF INTANGIBLE ASSETS	17	(9,350)	(1,893)
DISPOSAL OF PROPERTY AND EQUIPMENT		1,527	28
NET DECREASE / (INCREASE) OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		10,863	(44,392)
NET INCREASE IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		(56,843)	(35,034)
DIVIDENDS RECEIVED		957	644
SALE OF REPOSSESSED ASSETS		5,912	1,222
NET CASH FLOW FROM INVESTING ACTIVITIES		(48,594)	(88,575)
CASH FLOWS FROM FINANCING ACTIVITIES			
(EXPENDITURE) / RECEIPTS FROM BORROWED FUNDS		(70,931)	242,401
EXPENDITURE FROM ISSUED BONDS		(27,083)	(19)
NET CASH FLOW FROM FINANCING ACTIVITIES		(98,014)	242,382
NET CASH (PAID) / RECEIVED		(26,747)	362,722
CASH AT THE BEGINNING OF THE PERIOD	11	771,195	408,473
CASH AT THE END OF THE PERIOD	11	744,448	771,195

The accompanying accounting policies and notes on pages 45 to 115 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

IN HRK THOUSANDS	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED EARNINGS/ (LOSSES)	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 31 DECEMBER 2019	267,500	3,015	(1,388)	(3,282)	183,225	5,310	21,346	475,726
PROFIT FOR THE YEAR	-	-	-	-	-	-	11,819	11,819
CHANGES IN THE FAIR VALUES RESERVES	-	-	-	-	(5,337)	-	-	(5,337)
SALE OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	(792)	792	-	-
REPURCHASE OF OWN SHARES	-	-	(1,843)	-	-	-	-	(1,843)
ALLOTMENT OF OWN SHARES	-	-	2,047	(897)	-	-	-	1,150
ALLOCATION OF 2019 PROFIT	-	-	-	-	21,346	-	(21,346)	-
BALANCE AT 31 DECEMBER 2020	267,500	3,015	(1,184)	(4,179)	198,442	6,102	11,819	481,515
PROFIT FOR THE YEAR	-	-	-	-	-	-	15,234	15,234
CHANGES IN THE FAIR VALUE RESERVES	-	-	-	-	(166)	-	-	(166)
SALE OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	(1,259)	1,259	-	-
ALLOCATION OF 2020 PROFIT	-	-	-	-	11,819	-	(11,819)	-
BALANCE AT 31 DECEMBER 2021	267,500	3,015	(1,184)	(4,179)	208,836	7,361	15,234	496,583

The accompanying accounting policies and notes on pages 45 to 115 form an integral part of these financial statements.

1. GENERAL INFORMATION

Podravska banka d.d., Koprivnica (the "Bank") was incorporated in the Republic of Croatia and registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

BASIS OF PREPARATION

Basis of accounting

The annual financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), determined by the European Commission and published in the Official Journal of the EU (IFRS).

The Bank's operations are subject to the Credit Institutions Act, according to which the financial reporting of the Bank is determined by the Croatian National Bank ("CNB"), which is the central supervisory institution of the banking system in Croatia.

Basis of measurement

The financial statements are prepared on the fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or loss, and financial assets at fair value through other comprehensive income and non-financial assets, except for those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

The financial statements are intended for informational purposes; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

Functional and publication currency

These financial reports are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The exchange rate of kuna on December 31st 2021 was 7.517174 kuna for 1 euro and 6.643548 kuna for one US dollar (on December 31st 2020 the exchange rate of kuna was 7.536898 kuna for 1 euro and 6.139039 kuna for 1 US dollar).

The use of estimates and judgements

Preparation of financial statements in accordance with IFRS requires the Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, and disclosure of contingent liabilities and commitments at the reporting date, as well as amounts of income, expenses and other comprehensive income during the reporting period. Actual results may differ from estimates.

Estimates and associated assumptions are reviewed on an ongoing basis. The effects of changes in accounting estimates are recognized in the period in which the estimate is changed, if the change affects only that period, or in the period of the change and future periods if the change affects current and future periods.



Information on Management's judgments, which relate to the application of IFRS and which have a significant impact on the financial statements and information on estimates with a significant risk of possible significant adjustments in the next year, is disclosed in Note 2.

2. BASIC ACCOUNTING POLICIES

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") AND INTERPRETATIONS

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

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16) – extended period of application of the exemption until 30 June 2022 (effective for annual periods beginning on or after 1 April 2021);
- Interest Rate Benchmark Reform – Phase 2 introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is not mandatorily effective until annual periods beginning on or after 1 January 2021.

The adoption of these amendments to existing standards did not lead to significant changes in the Bank's financial statements.

Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force

At the date of approval of these financial statements, the following amendments to existing standards published by the IASB and adopted in the European Union were published, but not in force:

- Annual Improvements to IFRSs - 2018-2020 cycle - (effective for annual periods beginning on or after 1 January 2022),
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts Cost of Fulfilling a Contract): The amendments define what costs should be included in the entity's assessment of whether the contract will be detrimental (effective for annual periods beginning on or after 1 January 2022),
- 16 Property, Plant and Equipment (Amendment - Proceeds before Intended Use): The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss (effective for annual periods beginning on or after 1 January 2022),
- IFRS 3 Business Combinations Amendment – Reference to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022).

Standards and amendments to the existing standards issued by IASB and not yet adopted by the EU

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union has not yet decided on 31 December 2021 relate to IFRSs issued by the IASB:

- IFRS 17 Insurance Contracts
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies)
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Accounting Estimates)
- IAS 12 Income Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction)

Amendments stated above are effective for annual periods beginning on or after 1 January 2022.

The Bank expects that the adoption of these new standards and amendments to existing standards will not lead to significant changes in the Bank's financial statements in the period of the first application of the standards.

2.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) in accordance with of International financial reporting standards (IFRS).

Interest and similar income and expenses

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rates applicable, which reflect the rates that exactly discount estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees for loans which are probable of being drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

Interest and similar income and expenses

When loans become impaired, they are written down to their recoverable amounts, and interest income thereafter is carried off the balance sheet by applying the interest rate used to discount the future cash flows

for the purpose of measuring the recoverable amount. Other fees are recognised as income when earned. Dividend income is recognised after dividends are declared.

Fee and commission income

Fees and commission income consists mainly of fees for loans and guarantees issued and for other services provided by the Bank, together with commissions for managing funds on behalf of legal and natural persons and fees for foreign and domestic payment transactions.

Fees and commission income is recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.



Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as financial assets at fair value through other comprehensive income, proceeds from the sale and value adjustment of financial assets at fair value through profit or loss, net foreign exchange translation gains by reference to middle exchange rates, gains from disposal of property and equipment, dividends received and other income from operations.

Foreign currencies

Income and expenses on transactions denominated in foreign currencies are translated to Croatian kunas at the official exchange rates effective at the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated at the middle exchange rate of the CNB in effect at the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the statement of profit or loss for the year to which they relate.

The Bank has assets and liabilities originally denominated in Croatian kunas, which are linked to a foreign currency with one-way currency clause. The clause provides the Bank the option to remeasure the underlying assets at the higher of the foreign exchange rate valid as of the date of maturity and the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated, as forward rates for the Croatian kuna for periods over 9 months are not available. Therefore, the Bank revalues such assets and liabilities either at the higher of the middle rate of the Croatian National Bank valid at the reporting date or the rate specified in the contractual foreign exchange option.

Personnel costs

The right on vacation days is recognized in the period of origination of the right. The Bank recognises accrued benefits based on annual vacation days outstanding at the reporting date.

Personnel social contributions

Under the national legislation, the Bank has the obligation to pay contributions into pension and health insurance plans (funds). This obligation applies to all the employees working under employment contracts and requires from the employer to pay the contributions in determined percentages based on gross salary:

	2021	2020
PENSION CONTRIBUTIONS	20%	20%
HEALTH INSURANCE CONTRIBUTIONS	16,5%	16,50%

The Bank is also obliged to withhold the contributions from the gross salaries on behalf of the employees.

The contributions on behalf of the employees and the employer are charged to expenses in the period in which they arise.

In the normal course of operations the Bank makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are included in the payroll costs when accrued. The Bank has no other pension scheme and consequently no further obligations in respect of employee pensions. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Income tax

Income tax expense includes current and deferred income tax. Income tax is calculated on taxable profit at the current rate. Income tax is recognized in the income statement, with the exception of income tax relating to items recognized directly in other comprehensive income or equity, in which case the tax is recognized through other comprehensive income or directly through equity. The Bank pays corporate income tax by applying a tax rate of 18% to taxable profits, in accordance with the Profit Tax Act.

Current income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of the tax liability or advance is the best estimate of the expected amount of tax to be paid or received, which reflects the uncertainties surrounding the income tax, if any.

Deferred income tax

Deferred taxes are determined using the balance-sheet liability method. Deferred income tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases used for calculating the income tax. Deferred tax assets and deferred tax liabilities are determined using the tax rates expected to apply to taxable profit in the years in which the underlying temporary difference is expected to reverse, and the liability to be settled or the asset realised.

Deferred tax assets and liabilities are recognised regardless of when a timing difference is expected to reverse. Deferred tax assets are recognised when 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 re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

Cash and cash equivalents

For the purposes of the Statement of cash flows, cash and cash equivalents comprise balances with maturities less than 90 days, including cash, balances on current accounts as well as loans and advances to other banks.

Financial instruments

The Bank’s financial assets and financial liabilities reported on the statement of financial position include cash and cash equivalents, marketable securities, accounts receivable and payable, long-term loans, deposits and investments. The accounting methods applied to these instruments are disclosed in the corresponding accounting policies.

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Classification

The classification of a financial instrument is determined by the intent of managing (business model) financial instrument, and on the other hand, the characteristics of the associated contractual cash flows.

Investments in financial instruments are classified into three business models:

- the “hold to collect” business model - collecting the contracted cash flow



It implies financial assets acquired with the intent to hold it for the purpose of collecting contractual cash flows and is measured at amortization cost with condition that the asset has passed the SPPI test.

- the “hold and sell” business model - collecting the contracted cash flow and selling financial assets

It implies financial assets acquired with intent to hold for the purpose of collecting contracted cash flow and sale and is measured at fair value through other comprehensive income, also subject to the passing of the SPPI test.

- Other business models that do not meet the criteria of the first two models

This model implies a financial asset that is not held intentionally in one of the two previous business models and is measured at fair value through profit and loss statement.

The FV TLP option and the FV OCI option are also permitted by IFRS 9 (the latter applies to equity securities).

The Bank’s financial assets are classified into portfolios in accordance with the Bank’s intent at acquisition and characteristics of the cash flows.

Financial assets are classified as “Financial assets at fair value through profit and loss statement”, “Financial assets at fair value through other comprehensive income” and “Financial assets measured at amortized cost”. Financial liabilities are classified as “Financial liabilities at amortized cost”. The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements, as described further below.

Regular way transactions with financial instruments are accounted for in the statement of financial position at the settlement date. Under the settlement date accounting, the underlying asset or liability is not recognised until the settlement date, and the changes in the fair value of the underlying asset or liability are recognised starting from the trade date.

The Bank recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit and loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

Derecognition of financial assets due to significant changes in contractual terms

The Bank derecognises financial assets, such as loans to customers, when the terms of the contract have changed significantly so that it is a new loan. The difference is recognized as a gain or loss on derecognition, to the extent that no impairment was previously recognized. Newly recognized loans are classified in risk group A1 for the purpose of measuring expected credit losses, unless a new loan is classified in the “POCI” category. In assessing whether to derecognise a loan, in addition to quantitative factors, the Bank considers the following: whether the loan currency has changed, the introduction of contractual provisions for equity investments, changes in the counterparty and whether the change is such that the instrument no longer meets SPPI criteria.

Changes in financial assets that do not result in significantly different cash flows

There is no derecognition if the changes do not result in significantly different cash flows. The Bank recognizes a gain or loss on changes in contractual terms depending on the changed cash flows discounted at the original effective interest rate, to the extent that the impairment was not previously recognized.

Derecognition of financial assets for reasons other than significant changes in contractual terms

Financial assets (or part thereof, or a group of financial assets) are derecognised when the rights to receive cash flows from the assets have expired or the cash flows have been transferred and

- The Bank transfers substantially all the risks and rewards of ownership, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of ownership or retained control.

The Bank considers that the transfer of control occurred only when the transferee has the practical possibility to sell the asset in its entirety to an unrelated third party and when it can do so unilaterally without imposing additional restrictions on the transfer. When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the assets, it continues to recognize the assets to the extent that the Bank’s participation in the assets has continued.

Collateral (eg shares and bonds) given by the Bank in ordinary repurchase agreements and in securities-based loan transactions shall not be recognized. Based on the pre-determined repurchase price, the Bank retains almost all risks and rewards, therefore the conditions for derecognition are not met.

Offset of financial instruments

Financial assets and liabilities are offset and presented in the statement of financial position in net amount, only when there is a legally enforceable right to set off recognized amounts and there is an intention to settle on a net basis or the realization of assets and settlement occurs simultaneously. Income and

expenses are presented in net amount only if permitted by accounting standards, or for gains and losses arising from a set of similar transactions, such as the Bank’s trading activities.

Write-offs

Financial assets are written off in part or in full only when the Bank has ceased to collect. If the amount to be written off is greater than the cumulative amount of the allowance for impairment, the provision is first increased by the difference, and then the write-off is made by reducing the gross receivable against the provision. All subsequent collections are recognized as income in the income statement.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss are assets that do not meet the requirement that the contractual cash flows comprise only the payment of principal and interest on the outstanding amount of the principal, that is, assets that do not meet the criteria of the other two categories of financial asset.

Financial assets included in this portfolio are those held for trading, which have been acquired to generate profits from short-term fluctuations in prices, or are securities included in a portfolio with a pattern of short-term profit taking.



Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

Financial assets at fair value through other comprehensive income

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

- Financial assets are held within the business model whose objective is to be achieved through the collection of contractual cash flows and the sale of financial assets and
- financial assets at certain dates, cash flows that arise only from payment of principal and interest on unpaid principal.

Within this portfolio, we differentiate investments in debt securities and investments in equity securities.

At initial recognition of financial assets measured at fair value through other comprehensive income for debt securities investments, assets are recorded at their fair value plus transaction costs that can be attributed directly to the acquisition of that financial asset.

Subsequent measurement is carried out at fair value and the effects of subsequent measurement are recognized in other comprehensive income.

Interest and dividends are recognized in the profit and loss statement and impairment and exchange rate differences are recognized in other comprehensive income.

In the case of derecognition of a financial instrument is recognized in other comprehensive income are not recognized in the profit and loss statement.

Financial assets at amortized cost

Financial assets are measured at amortized cost if both conditions are met:

- Financial assets are held within a business model whose objective is to hold a financial asset for the purpose of collecting contractual cash flows and
- based on contractual terms of financial assets at certain dates, cash flows that are only payment of principal and interest on unpaid principal.

At initial recognition of financial assets measured at amortized cost, assets are recorded at their fair value plus transaction costs that can be attributed directly to the acquisition of that financial asset.

Subsequent measurement is carried out at amortized cost, and the effects of subsequent measurement are recognized in the profit and loss statement. Profit and loss statement also includes interest and dividends, impairment and exchange rate differences.

In this portfolio, the Bank primarily classifies loans and advances granted to clients and other receivables. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees incurred in securing a loan, are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred together with related direct costs and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

Impairment of financial assets

In the area of impairment, the Bank has established a methodology for calculating expected credit losses (ECL) and modelling of risk parameters, which include all the parameters required to project future expectations.

With impairment methodology The Bank defines increase of credit risk based on changes in creditworthiness, timeliness in meeting debt obligations and quality of collateral instruments.

Financial assets measured at amortized cost, including off-balance sheet exposures from borrowing commitments and financial guarantee contracts, as well as financial assets measured at fair value through other comprehensive income, other than equity instruments, receivables for which the impairment terms and conditions are applicable, the Bank classifies into the following categories on the reporting dates in order to estimate the level of impairment losses and credit loss provisions on the basis of estimates of credit loss levels:

Risk category A1 – in accordance with the internal act, exposures where no significant increase in credit risk (from the moment of initial recognition) has been determined are allocated. Impairment losses and provisions for impairment losses are determined based on 12-month expected credit loss, that represent part of lifetime expected credit losses that would occur if the default of the obligation within the next 12 months is reached.

In risk category A2 (increased level of credit risk) - in accordance with the internal act, exposures where a significant increase in credit risk has been determined from the point of initial recognition, however, there is no objective evidence of impairment are allocated. The impairment allowances and provisions for credit losses are determined based on lifetime expected credit losses.

In risk categories B and C (impairment losses), according to internal acts, exposures in the status of default, i.e. exposures in which objective evidence of impairment has been identified are classified. The Bank also considers restructured exposures in the status of default as well as exposures to debtors over which bankruptcy or liquidation is initiated.

The level of impairment for certain exposures classified in risk categories B and C is determined as a positive difference between the gross carrying amount of each exposure and the present value of the estimated future debtor's cash flows discounted using the effective interest rate, taking into account the minimum levels of impairment prescribed by internal acts.

For exposures in risk categories B and C (Stage 3), expected credit losses within small loans portfolio are determined according to days past due, considering the minimum levels of impairment prescribed by internal acts.

The Bank establishes a required impairment based on the calculation of expected credit losses, whereby the chosen approach and future horizons for which credit losses relate depend on the status and type of exposure. Calculation of expected credit losses is based on the calculation of risk parameters. They are modelled based on historical data.

Expected credit losses are calculated as the product of PD (probability of default), loss due to default (LGD) and exposure at the time of the loss event (EAD).



For the purpose of assessing the value of the PD parameter, the Bank has assigned all segments of credit clients in the rating classes and each rating class which is considered to be a PD homogeneous group, was appropriately assigned the one-year value of the PD as well as the corresponding multi-annual maturity structure of the PD which is adjusted to the expected values of the relevant macroeconomic factors.

Loss given default (LGD) represents an internal estimate of the level of loss related to credit exposure at default. The Bank has estimated the value of the LGD parameter through the so-called “work-out” method based on the analysis of historical post-default collection cases. The obtained LGD values are grouped by homogeneous groups and secured and unsecured placements, and a representative value of the LGD parameter is applied to each of them.

Exposure at default (EAD) represents the total amount of exposure for which it is necessary to create impairment.

The Bank applies conversion factor 1 in estimation of provisions for off-balance sheet items.

In estimating cash flows, management makes judgments about the debtor's financial situation and the net realizable value of any underlying collateral.

Measurement of fair value

Fair value is the price that would have been obtained on the measurement date through the sale of an asset or that would have been paid to transfer the liability in a regular transaction in the principal or most favourable market to which the Bank has access at that date.

When possible, the Bank measures the fair value of the instrument using a quoted price in the main market to which the Bank has access (mark-to-market). A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available on the price service, from intermediaries, brokers or pricing agencies or from a regulatory agency, and such prices represent actual and regular market transactions under normal market conditions.

If the market for a financial instrument is not active, in the case of unlisted securities, or if, for any reason, fair value cannot be measured reliably based on market prices, the Bank determines fair value using one of the valuation techniques (except for certain equity and debt securities), which are not listed on the stock exchange) which use relevant and recognizable parameters to the greatest extent possible, and parameters that are unrecognizable on the market to the least extent.

The selected valuation techniques include all the factors that market participants would use to evaluate the transaction. Valuation techniques include: the comparable companies method, the carrying amount method and the discounted cash flow method, with the comparable companies method and the carrying amount method being the primary valuation methods. Assumptions and inputs used in valuation techniques include risk-free and reference interest rates, credit margins, bond and stock prices, exchange rates, stock index prices, and volatility and correlations.

Valuation models are reviewed during their development and periodically to ensure consistency in maintaining valuation objectives. The use of market parameters allows for limitations of the discretionary nature of estimates and ensures that fair value can be verified.

Debt securities for which there is no active market are valued at amortized cost using the effective interest method.

The fair value of the demand deposit is not less than the amount to be repaid on demand, discounted from the first date the payment can be claimed.

Hierarchy of fair values

For the purposes of financial reporting, fair value measurements are classified in Level 1, 2 or 3 according to their degree of availability and significance in relation to the total measure of fair value, which are as follows:

- Level 1 inputs are (unadjusted) quoted prices in active markets for the same type of assets or liabilities that are available to the entity at the measurement date,
- Level 2 inputs are inputs that do not include quoted prices that are included in Level 1 and available for the asset or liability in question, either directly or indirectly, and
- Level 3 inputs are inputs on the asset or liability in question that are not available.

Foreclosed assets

Occasionally, by means of the enforcement procedure, the Bank acquires assets in exchange for outstanding claims. In the statement of financial position, foreclosed assets are classified as other assets held for sale. The Bank acquires the ownership of such assets based on the Order awarding ownership. The assets are recognised at cost of acquisition or the net recoverable amount, depending on what is less. Foreclosed assets are reviewed for impairment annually. Impairment loss is determined as the difference between the carrying amount of the asset and its recoverable amount and recognised in the profit or loss for the period in which the loss is determined. The recoverable amount is the fair value of an asset less costs to sell the asset. Fair values of those assets are determined based on independent market value appraisal performed by a licensed appraiser or based on a tentative agreement on the sale of property.

The Bank does not depreciate assets classified as assets held for sale. Impairment losses on subsequent measurement of non-current assets are recognised in profit or loss. Gains on subsequent increase in the fair value of assets previously impaired are recognised in profit or loss at the moment of the sale. The Bank derecognises an asset held for sale if such asset is sold. Gains or losses from the sale of assets held for sale are recognised in profit and loss account.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they have arisen. All the Bank's property interests held under operating leases in order to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they have arisen.

An investment property is derecognised upon disposal or when the investments property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the proper-



ty which is calculated as the difference between the net disposal proceeds and the carrying amount of the assets is included in profit or loss in the period in which the property is derecognised.

Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset, i.e. disposal group, and its sale is highly probable. Bank's Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are included in the financial statements and the liability to the counterparty is included in amounts due to customers. Securities purchased under agreements to resell them (reverse repo) are recognised as amounts due from banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and permanent impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from the disposal is included in the statement of profit or loss. The initial cost of property and equipment comprises its purchase price, including customs duties and non-refundable taxes and any costs directly attributable to bringing an asset to its working condition and location for its intended use. Expenditures incurred after an item of property or equipment has been put into use, such as repairs and maintenance, are normally charged to profit or loss in the period in which the expenditure is incurred. Assets under construction include those properties and equipment that are in progress and are carried at cost. The cost includes the cost of construction and other direct costs. Assets under development are not depreciated until they are completed and put into use and classified into the appropriate category of property and equipment. Property and equipment are depreciated on a straight-line basis over the useful life of the assets. The useful life of assets is shown as follows:

	2021	2020
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 - 10	2 - 10

Land is not depreciated. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end. The carrying amounts of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets

Intangible assets are recognised initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to an asset will flow to the Bank and the cost of the asset can be measured reliably. Subsequent to initial recognition, intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed in each reporting period.

Intangible assets are amortised over the periods of 5 to 15 years (software). The amortisation period and amortisation method should be reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non-financial assets

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount, an impairment loss for items of property and equipment and intangibles carried at cost is recognised in the profit and loss statements. The recoverable amount is the higher of an asset's net selling price and its value in use.

Right-of-use assets

When concluding a contract, the Bank assesses whether it is a lease agreement, or whether an individual contract contains elements of the lease. Right-of-use assets consist of leased property for which, under the lease agreement, the right of direct use and control over its use has been granted for a fixed period of time in exchange for compensation.

Exemptions are short-term leases where the lease term is less than 12 months or is a low-value rental property (up to USD 5,000, for example, renting a laptop, printer, telephone, money counter, small office furniture, etc.). All payments related to such leases in the lessee's books of account are recognized as an expense over the lease term.

In the financial records, right-of-use assets are recorded as leased assets depending on the subject of the lease (e.g. buildings, equipment, motor vehicles, etc.).

Usable assets are initially measured at cost, which includes

- amount of the initial lease obligation
- all lease payments made on or before the first day of the lease, less any payments received in connection with the lease
- all initial direct costs incurred by the lessee (eg brokerage fees, legal, administrative costs of contract processing, etc.).

After initial disclosure, the right-of-use assets are subsequently measured using the cost model, that is, depreciated until the expiration of the lease period or until the end of its useful life, whichever is earlier, and reduced by accumulated depreciation.



Lease liabilities

The lease liability is initially measured at the present value of all lease payments that were not made on the first day of the lease, plus fixed lease payments. VAT is not included in the monthly amount of the discounted installment.

Payments must be discounted at the interest rate contained in the lease. In case the interest rate is not included in the lease contract and it is not easy to determine, the discounting should be carried out at the incremental interest rate of the borrowing.

The incremental borrower's borrowing rate refers to the rate that the lessee would have to pay to borrow, within a similar timeframe and with similar guarantees, the funds needed for purchase of assets of similar value to the concerned right-of-use assets in a similar economic environment.

The lease liability is subsequently measured in such a way that:

- increases the carrying amount of the liability by the amount of interest on the lease liability,
- reduces the carrying amount of the lease payment obligation (excluding VAT),
- remeasures and adjusts book value to reflect any reassessment, lease modification or revision of fixed lease payments.

The Bank reports right-of-use assets in the statement of financial position in the position Right-of-use assets (Note 18.1), and lease liabilities within the position Other liabilities (Note 24 - Liabilities for the use of assets).

Goodwill

An impairment loss is assessed annually for possible losses. Testing for impairment is carried out using the cost method of capital - CAPM model, which includes both general and specific risks. For the purpose of the impairment testing, goodwill is allocated to each cash-generating unit arisen on the acquisition (from which future benefits are expected). The organisational cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that such an organisational unit may be impaired.

Where the recoverable amount of a unit is below its carrying amount, the impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to that unit and then proportionally to all other organisational units generating cash. Any gain or loss on remeasurement at fair value is included in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Provisions for contingent liabilities

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

Managed funds

The Bank manages a significant amount of assets on behalf of third parties and charges a fee for the concerned services. These assets are not included in the Bank's statement of financial position (see Note 29).

2.2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates

The Bank makes certain judgments and estimates about uncertain events, including estimates and judgments concerning the future. Such accounting assumptions and estimates are regularly reviewed and are based on past experience and other factors, such as the expected course of future events based on reasonable current assumptions in the given circumstances, but which nevertheless represent sources of uncertainty. In applying the Bank's accounting policies, the key areas of judgement made by the Management Board, other than those involving estimates, having the most significant impact on the amounts reported in the financial statements are as follows.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions for impairment losses on loans and receivables

The Bank reviews its loans and receivables at least quarterly (Note 14) to assess whether there is objective evidence of impairment. Through its internal acts, the Bank has prescribed indicators for determining the increased credit risk of debtors that are used to transfer exposures from risk subgroup A1 to risk subgroup A2.

The Bank has also prescribed by internal acts the criteria for determining the status of default.

In determining whether an impairment loss should be recognized, the Bank assesses whether there is objective evidence that an estimated future cash flow is impaired before the impairment loss of a single loan in the portfolio is determined. The methodology and assumptions used in estimating the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual losses.

Litigation provisions

Provisions (Note 25) are recognised when the Bank has a present legal or constructive obligation as a result of past events, when 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. Management maintains provisions at the level which is considered to be sufficient to cover the estimated losses and determines the sufficiency of provisions by reviewing individual items receivable, the current legal circumstances, as well as other relevant factors.

Provisions for employee benefits

Provisions for employee benefits are based on the Bank's Employee Benefit Policy and the related internal rules, which constitute a framework defining the basic principles and rules applying to employee benefits. The concerned by-laws define the general requirements for benefits that apply to all employees as well as specific requirements applicable only to certain qualifying employees, as well as the components, types and ratios of fixed and variable benefit components. Variable benefits include bonuses, individual awards, incentives for the overall performance as well as similar payments, awarded in cash or financial instruments. The obligations arising from the employee benefits are recognised in the period in which the related service is rendered and at amounts expected to be paid.

Income tax expense

The Bank is subject to corporate income tax in Croatia. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax liabilities will arise. If the ultimate outcome of the tax issues differs from the initially determined tax liability, any difference will be reflected in the provisions for the income tax as well as deferred taxes in the period in which the additional tax assessment is determined. Calculations supporting the tax returns are subject to audit and approval by the local tax authorities.

3. INTEREST AND SIMILAR INCOME AND EXPENSES

IN HRK THOUSANDS	2021	2020
INTEREST INCOME		
CORPORATE CUSTOMERS	35,307	33,623
INDIVIDUALS	53,070	51,660
SECURITIES	6,846	9,327
BANKS	105	325
PUBLIC AND OTHER SECTORS	5,113	5,115
	100,441	100,050
INTEREST EXPENSE		
CORPORATE CUSTOMERS	(991)	(698)
INDIVIDUALS	(5,468)	(7,018)
BANKS	(4,325)	(5,441)
PUBLIC AND OTHER SECTORS	(278)	(361)
	(11,062)	(13,518)
NET INTEREST INCOME	89,379	86,532

Interest income also includes deferred fees on loans in the total amount of HRK 4,904 thousand (2020: HRK 4,767 thousand), which are recognised by applying the effective interest rate method.

IN HRK THOUSANDS	2021	2020
INTEREST INCOME ON:		
PARTLY RECOVERABLE LOANS	5,368	136
FULLY IRRECOVERABLE LOANS	579	362
	5,947	498

4. FEE AND COMMISSION INCOME AND EXPENSE

IN HRK THOUSANDS	2021	2020
FEE AND COMMISSION INCOME		
PAYMENT TRANSACTION RELATED FEES AND COMMISSIONS	15,593	13,648
CARD-RELATED FEES AND COMMISSIONS	19,293	17,183
FEES AND COMMISSIONS FROM LENDING OPERATIONS	3,794	2,937
FEES AND COMMISSIONS ON SECURITIES TRADING	1,163	874
OTHER FEE AND COMMISSION INCOME	4,421	3,678
	44,264	38,320
FEE AND COMMISSION EXPENSE		
CASH OPERATION FEES AND COMMISSIONS	(3,320)	(3,459)
PAYMENT OPERATION CHARGES	(2,800)	(2,715)
INTERBANK SERVICE FEES	(366)	(316)
CARD-RELATED FEES	(6,591)	(5,806)
OTHER FEE AND COMMISSION EXPENSES	(5,159)	(2,932)
	(18,236)	(15,228)
NET FEE AND COMMISSION INCOME	26,028	23,092

Other fee and commission income consists mainly of fees collected on the Bank's counters from customers for the payments made and amounts to HRK 2,638 thousand (2020: HRK 2,504 thousand).

5. OTHER OPERATING INCOME, NET

IN HRK THOUSANDS	2021	2020
NET REALIZED GAIN ON SALE OF SECURITIES CLASSIFIED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	3,528	7,638
FOREIGN EXCHANGE TRADING GAINS	5,721	5,136
RENTAL INCOME	2,679	2,320
REVENUES FROM THE SALE OF SECURITIES CLASSIFIED AS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT	270	4,813
NET INCOME ON SALE OF PROPERTY AND EQUIPMENT	38	26
DIVIDEND INCOME	957	644
REFUND OF COURT COSTS	898	845
NET GAIN ON THE SALE OF FORECLOSED ASSETS	771	213
INCOME ON SUBSEQUENT COLLECTION OF RECEIVABLES PREVIOUSLY WRITTEN OFF	9	8
NET FX DIFFERENCES ON RETRANSLATION AT THE MIDDLE EXCHANGE RATE	921	1,442
OTHER INCOME	2,046	1,387
	17,838	24,472



6. IMPAIRMENT LOSSES AND PROVISIONS

IN HRK THOUSANDS	2021	2020
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AND BANKS (NOTE 11,12,13,14D)	(8,274)	(20,840)
IMPAIRMENT OF DEBT SECURITIES IN THE PORTFOLIO AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (NOTE 15.2)	(761)	(126)
REVERSAL OF VALUE/(IMPAIRMENT) OF EQUITY SECURITIES (NOTE 15.2)	13	(62)
REVERSAL OF PROVISIONS/(IMPAIRMENT) FOR GUARANTEES AND CONTINGENT LIABILITIES (NOTE 25)	(1,691)	115
IMPAIRMENT OF OTHER ASSETS (NOTE 20)	(460)	(114)
IMPAIRMENT OF FORECLOSED ASSETS (NOTE 20)	(334)	(717)
IMPAIRMENT OF INVESTMENT PROPERTIES (NOTE 16)	(569)	(518)
PROVISIONS FOR LEGAL CASES (NOTE 25)	(7,754)	-
	(19,830)	(22,262)

7. ADMINISTRATIVE EXPENSES

IN HRK THOUSANDS	2021	2020
PERSONNEL COSTS	46,262	45,835
COST OF MATERIAL AND SERVICES	29,224	26,916
RENTAL COSTS	4,795	5,044
DEPOSIT INSURANCE PREMIUMS	-	6,107
TAXES AND CONTRIBUTIONS	1,496	1,359
OTHER EXPENSES	962	2,047
	82,739	87,308

Other expenses include advertising and promotion, sponsorships, donations and other costs.

Staff costs

IN HRK THOUSANDS	2021	2020
NET SALARIES	26,756	27,269
PENSION INSURANCE COSTS	6,765	6,784
HEALTH INSURANCE COSTS	6,222	6,236
TAXES AND SURTAXES	4,187	5,283
PROVISIONS FOR EMPLOYEE BENEFITS	(33)	(2,342)
OTHER STAFF COSTS	2,365	2,605
	46,262	45,835

As at 31 December 2021 the Bank had 228 employees (2020: 239 employees).

8. DEPRECIATION AND AMORTISATION OF TANGIBLE AND INTANGIBLE ASSETS

IN HRK THOUSANDS	2021	2020
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	4,558	3,550
DEPRECIATION OF LEASEHOLD IMPROVEMENTS (NOTE 18)	1	74
DEPRECIATION OF PROPERTY WITH RIGHT OF USE (NOTE 18.1)	3,645	3,256
AMORTISATION OF INTANGIBLE ASSETS (NOTE 17)	2,956	2,603
	11,160	9,483

9. INCOME TAX EXPENSE

Corporate income tax is determined by applying the rate of 18% (2020: 18%) to taxable profits. Tax returns are not final and are subject to review and audit for at least a three-year period. The Management Board believes that tax obligations have been adequately provided for in these financial statements.

The tax expense comprises the following:

IN HRK THOUSANDS	2021	2020
CURRENT TAX EXPENSE	3,363	3,269
DEFERRED TAX EXPENSE	1,195	129
INCOME TAX ON REALIZED EFFECTS ON EQUITY SECURITIES	(276)	(174)
TAX EXPENSE	4,282	3,224

The reconciliation between accounting profit and taxable profit is set out below:

IN HRK THOUSANDS	2021	2020
PROFIT BEFORE TAXATION	19,516	15,043
STATUTORY TAX RATE	18%	18%
EXPECTED TAX AT THE RATE	3,513	2,708

TEMPORARY DIFFERENCES

DEFERRED LOAN ORIGINATION FEES	33	(548)
PROVISIONS FOR COURT COSTS - INTEREST	2,257	-
PROVISIONS FOR PAYMENTS TO EMPLOYEES	(104)	(2,288)
REALISED LOSSES – SALE OF FORECLOSED ASSETS (INVESTMENTS)	(9,911)	-
IMPAIRMENT OF FORECLOSED ASSETS	1,086	2,422
LOSS ON FINANCIAL ASSETS	(1)	-
NET TEMPORARY DIFFERENCES	(6,640)	(414)



PERMANENT DIFFERENCES		
TAX EFFECT OF NON-TAXABLE INCOME	(691)	(501)
DIVIDENDS RECEIVED	(691)	(501)
EFFECT OF TAX NON-DEDUCTIBLE EXPENSES	6,500	4,034
ENTERTAINMENT AND TRANSPORT	307	356
DEPRECIATION ABOVE THE PRESCRIBED AMOUNTS	111	111
INTEREST FROM RELATED-PARTY RELATIONSHIPS	78	(109)
WRITTEN-OFF RECEIVABLES	4,457	2,632
RETAINED EARNINGS FROM THE SALE OF EQUITY SECURITIES	1,535	966
OTHERS	12	78
NET PERMANENT DIFFERENCES	5,809	3,533
TAXABLE PROFIT	18,685	18,162
TAX BASE	18,685	18,162
TAX RATE	18%	18%
INCOME TAX PAYABLE	3,364	3,269
CURRENT TAX EXPENSE	3,364	3,269
DEFERRED TAX (INCOME) / EXPENSE	1,195	129
INCOME TAX ON REALIZED GAINS ON EQUITY SECURITIES	(276)	(174)
TOTAL TAX EXPENSE	4,283	3,224
EFFECTIVE TAX RATE	17.24%	21.73%

Changes in deferred tax assets and tax liabilities can be presented as below:

2021				
IN HRK THOUSANDS	OPENING BALANCE	CHARGED TO PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	2,663	(1,588)	-	1,075
DEFERRED LOAN ORIGINATION FEES	1,140	6	-	1,146
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	192	-	313	505
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	39	406	-	445
PROVISIONS FOR PAYMENTS TO EMPLOYEES	218	(19)	-	200
	5,150	(1,195)	313	4,269

2020				
IN HRK THOUSANDS	OPENING BALANCE	CHARGED TO PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	2,227	436	-	2,663
DEFERRED LOAN ORIGINATION FEES	1,239	(99)	-	1,140
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(1,152)	-	1,345	192
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	39	-	-	39
PROVISIONS FOR PAYMENTS TO EMPLOYEES	684	(466)	-	218
	3,935	(129)	1,345	5,150

The deferred tax assets and deferred tax liabilities are recognised by applying a rate of 18% (2020: 18%).

10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit (after tax) for the period attributable to ordinary shareholders after deducting preference dividends.

	2021	2020
PROFIT FOR THE YEAR (IN HRK'000)	15,234	11,819
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR THE YEAR	668,749	668,749
EARNINGS PER SHARE (IN KUNAS) – BASIC AND DILUTED	22.78	17.67



11. CASH AND CASH EQUIVALENTS

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	642,534	580,325
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	23,528	104,878
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	19,507	27,101
CASH IN HAND	48,853	46,503
OTHER ITEMS	10,025	12,388
	744,447	771,195
PROVISIONS FOR IMPAIRMENT	(333)	(599)
	744,114	770,596

Changes in provisions for losses

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	599	306
INCREASE/ (DECREASE)	(244)	352
EXCHANGE DIFFERENCES	(22)	(59)
BALANCE AT 31 DECEMBER	333	599

For purposes of the statement of cash flows, cash and cash equivalents can be presented as follows:

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	642,535	580,325
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS (NOTE 13)	23,528	104,878
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	19,507	27,101
CASH IN HAND	48,853	46,503
OTHER ITEMS	10,025	12,388
	744,448	771,195

12. BALANCES WITH THE CROATIAN NATIONAL BANK

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
OBLIGATORY RESERVE	177,927	160,280
	177,927	160,280
IMPAIRMENT ALLOWANCES	(53)	(48)
	177,874	160,232

The obligatory reserve represents the amount of liquid assets banks are required to partially place with the Croatian National Bank. The obligatory reserve is calculated every second Wednesday in a month on certain average balances of liabilities from the previous month. The calculation base includes the daily average balance of received loans and deposits, issued debt securities, hybrid and subordinated instruments and other financial liabilities, along with certain deductible items, especially for kuna and foreign currency sources of funds. The obligatory reserve requirement rate was reduced in March 2020 from the previous 12% to 9% by the end of 2020. Throughout 2021, a reserve requirement rate of 9% was applied.

Of the total balance of the calculated obligatory reserve funds, 75% are included in the kuna-denominated reserve funds. The Bank has the obligation to allocate to a separate mandatory reserve account with the CNB 70% of the total kuna-denominated reserve funds. These funds are maintained at the level of the average balance on the settlement account and on the negative balance reserve account at the National Clearing System. Banks do not allocate the obligatory reserve but must maintain at least 2% of the FX obligatory reserve funds on their own euro-denominated accounts with the CNB. The obligatory reserve balances with the Croatian National Bank are not interest-bearing.

Changes in provision for losses

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	48	-
INCREASE	5	48
BALANCE AT 31 DECEMBER	53	48



13. BALANCES WITH OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
TERM DEPOSITS	-	1,394
REVERSE REPURCHASE LOAN	6,031	-
	6,031	1,394
LESS: PROVISION FOR LOAN IMPAIRMENT	(19)	(4)
	6,012	1,390

The term deposit in 2020 in the amount of HRK 1,394 thousand relates to a special-purpose short-term contract with an interest rate of 0%.

Reverse repurchase loans in the amount of HRK 6,031 thousand in 2021 relate to one contract concluded with a domestic client, while corporate bonds of domestic issuers ISIN code HRSMBKO268E1 with a nominal value of EUR 800,000 and equity securities of a domestic issuer code HRAUHRRRA0009 with a value of HRK 1,000 were accepted as the basis for the repo transaction.

Changes in provision for losses

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	4	19
INCREASE/(DECREASE)	15	(52)
EXCHANGE DIFFERENCES	-	37
BALANCE AT 31 DECEMBER	19	4

Geographical analysis

The analysis includes term deposits and current accounts (Note 11) with foreign banks.

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
BELGIUM	9,527	56,211
UNITED STATES OF AMERICA	7,581	7,000
CANADA	2,175	1,731
MONTENEGRO	1,963	3,256
AUSTRIA	827	33,255
SWEDEN	752	1,082
ITALY	570	1,291
SLOVENIA	133	1,052
GREAT BRITAIN	-	1,394
	23,528	106,272

14. LOANS TO CUSTOMERS

a) Analysis by type of customer

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
RETAIL CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	1,218,440	1,037,008
- FOREIGN-CURRENCY DENOMINATED	37,191	23,058
	1,255,631	1,060,066
CORPORATE CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	995,226	985,621
- FOREIGN-CURRENCY DENOMINATED	116,210	107,693
	1,111,436	1,093,314
GROSS LOANS TO CUSTOMERS	2,367,067	2,153,380
PROVISION FOR LOAN IMPAIRMENT	(204,854)	(224,117)
NET LOANS TO CUSTOMERS	2,162,213	1,929,263

b) Analysis by sector

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2021	2020
RETAIL CUSTOMERS	1,255,631	1,060,066
WHOLESALE AND RETAIL TRADE	243,579	276,635
PROCESSING AND MANUFACTURING	194,883	245,750
AGRICULTURE AND FORESTRY	120,456	70,126
CONSTRUCTION	105,976	66,083
REAL ESTATE OPERATIONS	86,869	123,479
HOTELS AND RESTAURANTS	68,205	57,783
FOOD AND BEVERAGE PRODUCTION	47,289	45,010
ENERGY, GAS AND WATER SUPPLY	24,025	11,539
TRANSPORT, STORAGE, COMMUNICATIONS	15,765	21,430
OTHER SECTORS	204,389	175,479
	2,367,067	2,153,380
LESS: PROVISION FOR LOAN IMPAIRMENT	(204,854)	(224,117)
	2,162,213	1,929,263



c) *Movements in the principal of fully recoverable, partially and fully irrecoverable loans*

IN THOUSANDS HRK	2021		
	STAGE 1	STAGE 2	STAGE 3
BALANCE AT 1 JANUARY	1,733,229	49,863	370,288
TRANSFER TO STAGE 1	9,193	(7,216)	(1,977)
TRANSFER TO STAGE 2	(44,309)	45,401	(1,093)
TRANSFER TO STAGE 3	(16,009)	(5,791)	21,800
CHARGE	(139,739)	(13,006)	(15,454)
REPAYMENT + WRITE-OFFS	(509,522)	(4,965)	(62,505)
NEW ASSETS	944,986	11,222	2,671
BALANCE AT 31 DECEMBER	1,977,829	75,508	313,730

IN THOUSANDS HRK	2020		
	STAGE 1	STAGE 2	STAGE 3
BALANCE AT 1 JANUARY	1,856,464	7,480	385,830
TRANSFER FROM STAGE 1	(53,844)	41,352	12,492
TRANSFER FROM STAGE 2	2,879	(5,112)	2,232
TRANSFER FROM STAGE 3	553	787	(1,340)
CHARGE	(175,714)	(883)	(8,223)
REPAYMENT + WRITE-OFFS	(514,009)	(1,153)	(23,984)
NEW ASSETS	616,900	7,392	3,281
BALANCE AT 31 DECEMBER	1,733,229	49,863	370,288

During 2021, HRK 20,131 thousand of customer loans were rescheduled (in 2020: HRK 16,098 thousand).

During 2021, the Bank purchased a portfolio of incoming retail loans from another bank in the Republic of Croatia. This portfolio was recognized in the Bank's assets in December 2021 in the amount of HRK 17,419 thousand. The portfolio includes regular income loans to households that meet the criteria of the SPPI test and are accordingly included in the model held for cash flow collection.

d) *Provisions for losses*

IN THOUSANDS HRK	2021	2020
BALANCE AT 1 JANUARY	224,117	222,828
INCREASE IN IMPAIRMENT ALLOWANCE	77,138	73,148
AMOUNTS COLLECTED	(68,602)	(53,886)
EXCHANGE RATE FLUCTUATIONS	(17)	1,251
AMOUNTS WRITTEN OFF	(27,782)	(19,224)
BALANCE AT 31 DECEMBER	204,854	224,117

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to

avoid concentration in a single industry. The Bank also obtains acceptable collateral to reduce the level of credit risk.

Covid-19 impact

Despite the current crisis caused by the COVID-19 pandemic, the Bank did not have a significant impact on the worsening of non-performing exposures in 2020. and 2021.

However, the current market environment is still affected by the increased risk arising from the uncertainty of the pandemic development and the consequent uncertainty of the timing and extent of the economic recovery that could occur in future periods. Uncertainty remains at 31 December 2021, as highlighted in the ECB's September 2021 macroeconomic projections, which show a positive GDP growth rate in the coming years. However, the projected increase in global growth should be viewed in conjunction with:

- increased inflationary movements
- long-term supply bottleneck problems and
- low vaccination rates in many Eastern European countries.

These factors are an obstacle to growth, and are particularly straining on fragile economies, where progress in fragmentation remains limited. In December 2021, the ECB updated its macroeconomic projections, highlighting increasing uncertainty about the timing and extent of the economic recovery.

In accordance with regulatory guidelines, the Bank approved moratoriums of up to six months until 31 March 2021, and up to twelve months for clients earning income from tourism. Moratoriums related to COVID-19, in accordance with regulatory guidelines, if there were no other indicators of increased credit risk, the Bank did not consider concessions.

Changes in contractual terms related to the suspension of liabilities and deferrals (moratoriums) did not result in the derecognition of assets. The loss from the change in contractual terms is not recognized as interest continued to be accrued during the standstill period, was regularly settled or was payable in a later period. Even after taking into account short-term deferrals of a smaller portion of cash flows - the present value of total modified cash flows discounted at the original effective interest rate (the rate before the change in contractual terms) is almost equal to the gross carrying amount of the asset.

During 2021, the Bank approved a total of 19 (2020: 275) requests for a moratorium with an exposure of HRK 18,446 thousand (HRK 2020,309 million), of which 10 (2020: 138) requests to legal entities in the amount of HRK 17,514 thousand (2020: HRK 271 million) and natural persons 9 (2020: 137) requests in the amount of HRK 932 thousand (2020: HRK 38 million). All approved moratoriums expired and on 31 December 2021 there are no active moratoriums.

The Bank continuously monitors the execution of liabilities on placements during and after the expiration of the moratorium measures in order to timely identify increased credit risk in the portfolio and recognize provisions for losses through the income statement.

Strong earthquakes in 2020 did not affect the Bank's operations. During 2021, the Bank approved 1 request for a moratorium that expired by the end of the year (2020: also 1). Taking into account the deteriorating situation in the economy, the fall in GDP and the increase in the number of unemployed, a worsening of the loan portfolio is to be expected in the coming years.



15.1. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
INVESTMENTS IN INVESTMENT FUNDS	171,325	183,533
	171,325	183,533

Movements in investment during the year:

a) shares in investment funds

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	183,533	137,853
INCREASE	48,017	58,520
DECREASE	(60,491)	(14,137)
CHANGE IN FAIR VALUE / REALIZATION	266	1,297
BALANCE AT 31 DECEMBER	171,325	183,533

b) equity securities

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	-	-
INCREASE	-	3,575
DECREASE	(4)	(7,090)
CHANGE IN FAIR VALUE / REALIZATION	4	3,515
BALANCE AT 31 DECEMBER	-	-

15.2. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
TREASURY BILLS OF THE REPUBLIC OF CROATIA	-	-
BONDS	730,971	677,343
EQUITY SECURITIES	48,788	46,813
	779,759	724,156
IMPAIRMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(10,021)	(10,034)
	769,738	714,122

Investments in debt securities are presented as follows:

a) Treasury bills of the Republic of Croatia

IN HRK THOUSANDS	2021	2020
BALANCE 1 JANUARY	-	40,440
PURCHASE	-	21,126
SALE/PAYMENT	-	(61,572)
REALIZED GAIN / (LOSS)	-	32
CHANGE IN FAIR VALUE	-	(14)
IMPAIRMENT ALLOWANCE	-	(12)
BALANCE 31 DECEMBER	-	-

b) Bonds

IN HRK THOUSANDS	2021	2020
BALANCE 1 JANUARY	677,343	605,865
PURCHASE	567,552	772,431
SALE	(511,790)	(704,063)
REALIZED GAIN	3,528	7,606
CHANGE IN FAIR VALUE	(5,696)	(4,634)
TRANSFER UPDATES TO OCI	(727)	-
IMPAIRMENT ALLOWANCE	761	138
BALANCE 31 DECEMBER	730,971	677,343

The table below presents the Bank's bond i.e. debt instrument portfolio structure:

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
BONDS OF DOMESTIC ISSUERS		
- CROATIAN MINISTRY OF FINANCE	369,162	436,101
- LOCAL GOVERNMENT	2,500	-
- FINANCIAL INSTITUTIONS	23,705	13,060
- NON-FINANCIAL INSTITUTIONS	94,600	61,584
	489,967	510,745
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENT BONDS	119,372	96,590
- FINANCIAL INSTITUTIONS	80,413	56,033
- NON-FINANCIAL INSTITUTIONS	41,219	13,975
	241,004	166,598
	730,971	677,343



Investments in equity securities are shown as follows:

c) Equity securities

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
LISTED SECURITIES	40,798	39,041
UNLISTED SECURITIES	7,990	7,772
	48,788	46,813
IMPAIRMENT OF EQUITY SECURITIES	(10,021)	(10,034)
TOTAL	38,767	36,779

Movements in equity securities during the year:

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	36,779	39,652
PURCHASES	40,170	29,911
DISPOSALS	(43,378)	(30,562)
CHANGE IN THE FAIR VALUE	3,924	(2,952)
REALIZATION	1,259	792
IMPAIRMENT OF EQUITY SECURITIES	13	(62)
BALANCE AT 31 DECEMBER	38,767	36,779

The table below presents the Bank's equity instrument portfolio structure:

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
EQUITY SECURITIES OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	1,630	1,355
- NON-FINANCIAL INSTITUTIONS	25,366	28,479
	26,996	29,834
EQUITY SECURITIES OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	6,787	5,050
- NON-FINANCIAL INSTITUTIONS	15,005	11,929
	21,792	16,979
	48,788	46,813
IMPAIRMENT OF EQUITY SECURITIES	(10,021)	(10,034)
	38,767	36,779

d) Fair value reserve from financial assets at fair value through comprehensive income

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
TYPE OF SECURITIES		
DEBT SECURITIES	(848)	4,813
EQUITY SECURITIES	(1,960)	(5,884)
DEFERRED TAX (NOTE 9)	505	193
TOTAL FAIR VALUE RESERVE	(2,303)	(878)

Movements in the fair value reserve

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	(878)	5,250
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(5,696)	(4,647)
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	3,924	(2,952)
CHANGES IN PROVISIONS FOR EXPECTED CREDIT LOSSES ON FVOCI FINANCIAL ASSETS	761	126
TRANSFER UPDATES TO OCI	(727)	-
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	313	1,345
BALANCE AT 31 DECEMBER	(2,303)	(878)

Movements in the impairment of financial assets at fair value through comprehensive income

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	10,034	9,972
ADDITIONS	104	258
DECREASE	(117)	(196)
BALANCE AT 31 DECEMBER	10,021	10,034



16. INVESTMENT PROPERTY

Movement of impairment of investment property

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
INVESTMENTS IN PROPERTIES	22,155	22,156
INVESTMENTS IN PROPERTIES - REPOSSESSED ASSETS	16,033	30,231
	38,188	52,387
FAIR VALUE CHANGE	(3,010)	(11,139)
	35,178	41,248

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	11,139	10,621
IMPAIRMENT	569	518
SALE	(8,698)	-
BALANCE AT 31 DECEMBER	3,010	11,139

Investment property relates to repossessed assets in exchange for uncollectible receivables and own assets not used for business operations and that are leased without constraining clauses with for the purpose of earning income from assets and saving maintenance costs. Operating costs related to leased assets are charged to lessees. Subsequent measurement of assets in 2021 shows a decrease in the value of assets in the total amount of HRK 569 thousand (in 2020: decrease of 518 thousand HRK).

Investments in properties are measured at fair value less costs to sell. The fair value of such assets is estimated annually. Gains in the income statement in addition to previously recognized impairments are recognized upon derecognition.

To assess the fair value of assets, the Bank employs independent and certified appraisers who have experience in valuing similar assets and have no interest in the property in question or interest in the amount of the assessed value of the property. The appraisers prepare the assessment report in accordance with the Law on Real Estate Valuation (OG 78/2015), and the accompanying Rulebook on Methods of Valuation of Real Estate (OG 105/2015), according to statutory and appropriate methods, considering a number of factors in determining its fair value. present market values.

The valuation method has not changed during the year.

17. INTANGIBLE ASSETS

IN HRK THOUSANDS	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2020	48,885	16,867	1,203	66,955
ADDITIONS	1,748	-	217	1,965
TRANSFER FROM ASSETS UNDER DEVELOPMENT	1,301	-	(1,301)	-
DISPOSALS AND WRITE-OFFS	(1,326)	-	-	(1,326)
BALANCE AT 31 DECEMBER 2020	50,608	16,867	119	67,594
ADDITIONS	5,749	-	3,615	9,364
TRANSFER FROM ASSETS UNDER DEVELOPMENT	115	-	(115)	-
DISPOSALS AND WRITE-OFFS	(25)	-	-	(25)
BALANCE AT 31 DECEMBER 2021	56,447	16,867	3,619	76,933
AMORTISATION				
BALANCE AT 1 JANUARY 2020	23,622	-	-	23,622
CHARGE FOR THE YEAR	2,603	-	-	2,603
DISPOSALS AND RETIREMENTS	(1,254)	-	-	(1,254)
BALANCE AT 31 DECEMBER 2020	24,971	-	-	24,971
CHARGE FOR THE YEAR	2,956	-	-	2,956
DISPOSALS AND WRITE-OFFS	(12)	-	-	(12)
BALANCE AT 31 DECEMBER 2021	27,915	-	-	27,915
NET BOOK VALUE				
BALANCE AT 31 DECEMBER 2020	25,637	16,867	119	42,623
BALANCE AT 31 DECEMBER 2021	28,531	16,867	3,619	49,017

Goodwill has been allocated to the cash generating unit acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined based on profitability calculation. For the purposes of calculation, cash flow forecasts have been developed based on financial projection over a time horizon of five years. The discount rate applied to determine the value in use was 5.8% (2020: 5.9%) and the long-term growth rate was 0.0% (2020: 0.0%).

The planned budgeted gross margin has been determined on the basis of the past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

The Bank carries out stress tests on individual inputs used in determining the value in use, with three scenarios. Specific scenario in which the discount rate is equal to the used one, while the expected profitability is 30% lower due to a decrease in interest income and fees and a simultaneous increase in costs on the same basis at a rate of 30%, a systemic scenario in which the credit rating deteriorates rate increased to



7.1% and a combined scenario that simultaneously assumes assumptions of a 55% decrease in profitability and a deterioration in the country's macroeconomic indicators and credit rating, with the discount rate increasing to 8.5%.

The test results are provided below:

	31 DECEMBER 2021	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	131,539	94,025	108,874	43,424
LESS: IMPAIRMENT				(41)

	31 DECEMBER 2020	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	110,490	49,261	82,199	36,812
LESS: IMPAIRMENT				(6,653)

The stress test results in the specific and systemic scenarios are positive, while the combined scenario implies opposite assumptions in order to achieve a negative result. The test has shown that the recoverable amount of the cash generating unit exceeds its carrying amount and that no impairment should be recognised.

The goodwill disclosed in the Bank's books of account was created upon the acquisition of Požeška banka, which was merged with Podravska banka d.d. on 1 July 2006.

18. PROPERTY AND EQUIPMENT

IN HRK THOUSANDS COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVE- MENTS	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AT 1 JANUARY 2020	89,478	40,108	1,807	25,897	10,478	11	167,779
ADDITIONS	-	1,431	-	7,719	-	-	9,150
DISPOSALS AND WRITE- OFFS	-	(1,770)	-	(6,865)	(2,506)	-	(11,141)
BALANCE AT 31 DECEMBER 2020	89,478	39,769	1,807	26,751	7,972	11	165,788
ADDITIONS	367	430	-	864	-	-	1,661
DISPOSALS AND WRITE- OFFS	-	(1,181)	(853)	(4,507)	(1,128)	-	(7,669)
BALANCE AT 31 DECEMBER 2021	89,845	39,018	954	23,108	6,844	11	159,780
DEPRECIATION							
BALANCE AT 1 JANUARY 2020	48,891	38,816	1,012	25,201	10,401	-	124,321
CHARGE FOR THE YEAR	1,551	421	191	1,387	74	-	3,624
DISPOSALS AND WRITE- OFFS	-	(1,768)	-	(6,865)	(2,506)	-	(11,139)
BALANCE AT 31 DECEMBER 2020	50,442	37,469	1,203	19,723	7,969	-	116,806
CHARGE FOR THE YEAR	1,544	636	191	2,187	1	-	4,559
DISPOSALS AND WRITE- OFFS	-	(1,171)	(854)	(4,504)	(1,126)	-	(7,655)
BALANCE AT 31 DECEMBER 2021	51,986	36,934	540	17,406	6,844	-	113,710
NET BOOK VALUE							
AT 31 DECEMBER 2020	39,036	2,300	604	7,028	3	11	48,982
AT 31 DECEMBER 2021	37,859	2,084	414	5,702	-	11	46,070

The Bank has no tangible assets pledged as collateral for deposits or other assets in 2021 and 2020.



18.1. RIGHT-OF-USE ASSETS

IN HRK THOUSANDS	LAND AND BUILDINGS	MOTOR VEHICLES	COMPUTER EQUIPMENT	TOTAL
COST OR ESTIMATED VALUE				
BALANCE AT 1 JANUARY 2020	14,659	1,980	-	16,639
ADDITIONS	-	131	4,079	4,210
DISPOSALS AND WRITE-OFFS	-	-	-	-
BALANCE AT 31 DECEMBER 2020	14,659	2,111	4,079	20,849
ADDITIONS	3,628	407	-	4,035
DISPOSALS AND WRITE-OFFS	(1,477)	(70)	-	(1,547)
BALANCE AT 31 DECEMBER 2021	16,810	2,448	4,079	23,337
DEPRECIATION				
BALANCE AT 1 JANUARY 2020	2,492	206	-	2,698
CHARGE FOR THE YEAR	2,492	516	248	3,256
DISPOSALS AND WRITE-OFFS	-	-	-	-
BALANCE AT 31 DECEMBER 2020	4,984	722	248	5,954
CHARGE FOR THE YEAR	2,580	556	510	3,646
DISPOSALS AND WRITE-OFFS	(49)	(23)	-	(72)
BALANCE AT 31 DECEMBER 2021	7,515	1,255	758	9,528
NET BOOK VALUE				
BALANCE AT 31 DECEMBER 2020	9,675	1,389	3,831	14,895
BALANCE AT 31 DECEMBER 2021	9,295	1,193	3,321	13,809

The new IFRS 16 standard requires a lessee to recognize the right-of-use asset and associated lease liability in his financial records.

Right-of-use assets consist of leased property for which, under the lease agreement, the right of direct use and control over its use has been granted for a fixed period in exchange for compensation. The exemption are short-term lease agreements where the lease term is less than 12 months or where the lease object is of a low value.

In the business books, right-of-use assets are recorded as leased assets depending on the subject of the lease (e.g. buildings, equipment, motor vehicles, etc.).

19. ASSETS HELD FOR SALE

Movements in impairment of assets held for sale

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
ASSETS HELD FOR SALE	262	998
	262	998
IMPAIRMENT OF ASSETS HELD FOR SALE	-	-
	262	998

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	-	-
IMPAIRMENT	-	-
DISPOSALS	-	-
BALANCE AT 31 DECEMBER	-	-

The portfolio of assets held for sale refers to the property acquired in exchange for non-repayable receivables. During 2021, the Bank acquired a new and sold part of its assets held for sale, while in 2021 and 2020 there was no change in the value of the portfolio of assets held for sale.

Assets are marketed for sale through foreign real estate agencies with which the Bank has concluded Mediation Contracts. The expected sale deadline is one year. In 2021, the Bank realized HRK 998 thousand of assets held for sale (2020: no realization).

20. OTHER ASSETS

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
FORECLOSED ASSETS	13,734	13,765
ACCRUED FEES AND COMMISSIONS	4,324	4,283
PREPAID EXPENSES	1,767	1,752
OTHER PREPAYMENTS	625	2,075
INCOME TAX RECEIVABLES	2,209	2,882
OTHER ASSETS	2,663	6,035
	25,322	30,792
LESS: IMPAIRMENT	(5,788)	(6,392)
	19,534	24,400

Property and equipment taken over in exchange for uncollected receivables are not used for the Bank's needs. In the Bank's books they are recognized in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. As at 31 De-



cember 2021 the net value of the assets taken over is HRK 11.818 thousand (in 2020: HRK 10,970 thousand).

Assets acquired in exchange for uncollectible receivables are measured at fair value. The fair value of such assets is estimated annually. For the assessment of the fair value of assets, the Bank engages independent and certified appraisers who have experience in the assessment of similar assets, and have no interests in the subject assets or interests related to the amount of the assessed value of the property. Appraisers prepare an appraisal study in accordance with the Real Estate Valuation Act and the relevant Ordinance on Real Estate Valuation Methods, according to the methods prescribed by law and methods appropriate.

Subsequent measurement of acquired assets in exchange for uncollectible receivables in 2021 recorded a decrease in the value of acquired assets in the total amount of HRK 879 thousand (in 2019: HRK 717 thousand).

Movements in the provision for potential losses on other assets are as follows:

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	6,392	6,236
IMPAIRMENT OF OTHER ASSETS	1,582	1,337
AMOUNTS COLLECTED	(1,106)	(1,224)
EXCHANGE DIFFERENCES	(16)	2
AMOUNTS WRITTEN-OFF	(185)	(676)
IMPAIRMENT OF FORECLOSED ASSETS	334	717
SALE OF FORECLOSED PROPERTY	(995)	-
DISPOSALS OF FORECLOSED ASSETS	(218)	-
BALANCE AT 31 DECEMBER	5,788	6,392

21. AMOUNTS DUE TO OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
DEMAND DEPOSITS, IN FOREIGN CURRENCIES	15,912	28,192
DEMAND DEPOSITS, IN HRK	5	11
	15,917	28,203

Liabilities to banks in 2021 and 2020 relate to demand deposits received from foreign banks.

22. AMOUNTS DUE TO CUSTOMERS

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
RETAIL CUSTOMERS		
DEMAND DEPOSITS		
- HRK DENOMINATED	833,819	698,259
- FOREIGN-CURRENCY DENOMINATED	708,750	591,762
TERM DEPOSITS		
- HRK DENOMINATED	170,432	205,708
- FOREIGN-CURRENCY DENOMINATED	434,978	502,932
TOTAL RETAIL DEPOSITS	2,147,979	1,998,661
CORPORATE		
DEMAND DEPOSITS		
- HRK DENOMINATED	621,842	476,970
- FOREIGN-CURRENCY DENOMINATED	223,339	135,515
TERM DEPOSITS		
- HRK DENOMINATED	65,949	87,240
- FOREIGN-CURRENCY DENOMINATED	62,252	68,683
TOTAL LOANS TO LEGAL PERSONS	973,382	768,408
TOTAL DEPOSITS FROM CUSTOMERS	3,121,361	2,767,069

23. OTHER BORROWINGS

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
BORROWINGS FROM HBOR	117,988	122,779
LOANS FROM HBOR	-	50,003
REPO LOANS FROM THE CNB, HRK DENOMINATED	313,679	312,315
LOANS FROM DOMESTIC BANKS	-	17,501
	431,667	502,598

The HBOR loans are intended for granting loans to legal and natural persons in accordance with the HBOR SME, Tourism and Agriculture Loan Programmes. Loans from HBOR refer to one short-term loan at 31 December 2021 with an interest rate of 0.20% per annum.

Repo loans refer to received loans for which the Bank has pledged securities with the obligation to repurchase them on a certain future date. In 2021, the Bank has four long-term repo loans with the Croatian National Bank with interest rates of 1.20% and 0.25% per annum. In 2020, the Bank has four long-term repo loans with the Croatian National Bank with interest rates of 1.20% and 0.25%. For all repo agreements in 2021



and 2020, the Bank pledged bonds of the Ministry of Finance of the Republic of Croatia, and in 2021 the bonds of Erste & Steiermarkische bank d.d.

As of December 31, 2021, no loans were contracted with domestic banks (in 2020, two short-term loans were concluded with interest rates of 0.15% and 0.20% per annum).

24. OTHER LIABILITIES

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
ITEMS IN COURSE OF PAYMENT UNDER GIVEN LOANS	20,241	17,078
LEASE LIABILITIES	14,366	15,211
LIABILITIES TO EMPLOYEES	3,492	3,457
ACCOUNTS PAYABLE	3,317	3,159
OTHER HRK DENOMINATED LIABILITIES	1,948	1,849
PROVISIONS FOR RETIREMENT AND OTHER BENEFITS TO EMPLOYEES	1,435	1,468
OBLIGATIONS IN THE PAYMENT PROCESS	1,423	1,805
ACCRUED FEES AND COMMISSIONS	683	467
LIABILITIES IN ACCRUAL BASED ON RECEIVED FUNDS	353	1,883
CURRENT TAX LIABILITY	272	604
OTHER FOREIGN-CURRENCY DENOMINATED LIABILITIES	252	5,477
DIVIDENDS PAYABLE	104	106
PREPAID DEPOSIT INSURANCE PREMIUMS	-	1,569
	47,886	54,133

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
PROVISIONS FOR FRAME LOANS	4,899	3,543
PROVISIONS FOR GUARANTEES	1,493	1,163
PROVISIONS FOR LEGAL CASES	8,376	622
PROVISIONS FOR UNCOVERED LETTERS OF CREDIT	-	2
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	27	20
	14,795	5,350

b) Movements in provisions

IN HRK THOUSANDS	2021	2020
BALANCE AT 1 JANUARY	5,350	5,465
ADDITIONAL PROVISIONS MADE WITH RESPECT TO CREDIT RISK	13,885	10,445
DECREASE IN THE BALANCE OF PROVISIONS DURING THE YEAR WITH RESPECT TO CREDIT RISK	(12,205)	(10,599)
FOREIGN EXCHANGE GAINS/LOSSES	12	39
INCREASE IN PROVISIONS FOR LEGAL CASES	7,754	-
BALANCE AT 31 DECEMBER	14,796	5,350

26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
ISSUED SUBORDINATED BONDS	71,206	98,564
	71,206	98,564

On 23 December 2013, the Bank carried out subscription of subordinated instruments by issuing PDBA-O- 21CA bonds, ISIN: HRPDBAO21CA3. The bonds were issued in book-entry form, with a total issue value of HRK 6,911 thousand euro, denominated in EUR 1. The interest rate is fixed at 6.5% per annum, with a semi- annual payment and a one-off principal maturity of 2021.

On May 29, 2018, the Bank issued a new series of PDBA-O-255E subordinated bonds, ISIN: HRPDBAO255E4, in book-entry form, for a total amount of EUR 9,407 thousand in denomination of EUR 1, with a fixed interest rate of 4.0% per annum and a half-yearly payment, and a one-off principal maturity on May 29, 2025.

Subordinated bonds were issued with a public offering in 2018, without the prospectus being published, with the simultaneous early redemption of all or part of the PDBA-O-188A and PDBA-O-21CA bond issues.

Upon completion and the end of the public offering, hybrid bonds PDBA-O-188A, ISIN: HRPDBAO188A5 in the amount of EUR 6,127 thousand and subordinate bonds PDBA-O-21CA, ISIN: HRPDBAO21CA3 in the amount of EUR 3,280 thousand were early redeemed and annulled.

On October 26, 2021, a new series of PDBA-O-29AE subordinated bonds, ISIN: HRPDBAO29AE2 were issued: in book-entry form in the total amount of EUR 8,501 thousand in the denomination of EUR 1, with a fixed interest rate of 4.0% per annum with half-annual payment, and a one-time principal maturity on October 26, 2029. The new issue was carried out with the simultaneous early redemption and replacement of existing PDBA-O-255E bonds in the amount of the subscribed amount of newly issued PDBA-O-29AE bonds (EUR 8,501 thousand).

Balance of issued subordinated bonds as at 31.12.2021. includes ISIN HRPDBAO255E4 with a nominal value of EUR 909 thousand and ISIN HRPDBAO29AE2 with a nominal value of EUR 8,563 thousand.



Balance of issued subordinated bonds as at 31.12.2020. includes ISIN HRPDBAO21CA3 with a nominal value of EUR 3,631 thousand and ISIN HRPDBAO255E4 with a nominal value of EUR 9,407 thousand.

Bank's additional capital includes the unamortized amount of subordinated bonds issued.

27. SHARE CAPITAL

The share capital consists of ordinary shares. The total number issued shares at the end of 2021 was 668,749 ordinary shares (2020: 668,749 ordinary shares) with a nominal value of HRK 400.00 per share.

The Bank has 3,324 treasury shares as at 31 December 2021 (3,324 in 2020), booked at cost.

The key shareholders of the Bank at 31 December were as follows:

IN HRK THOUSANDS	2021		2020	
	NUMBER OF SHARES	ORDINARY SHARES, IN%	NUMBER OF SHARES	ORDINARY SHARES, IN%
ANTONIA GORGONI	66,278	9.91	66,278	9.91
LORENZO GORGONI	66,002	9.87	66,002	9.87
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S,R,L, TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
PIERO MONTINARI	38,515	5.76	38,515	5.76
MARIO GORGONI	31,873	4.77	22,868	3.42
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
OTHER SHAREHOLDERS (INDIVIDUALLY LESS THAN 3%)	139,760	20.90	148,765	22.25
	668,749	100.00	668,749	100.00

28. RESERVES

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
LEGAL RESERVES	189,205	177,386
RESERVES FOR OWN SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
NON-DISTRIBUTABLE RESERVES	211,139	199,320
CAPITAL LOSS ON TRADING IN TREASURY SHARES	(4,179)	(4,179)
FAIR VALUE RESERVE	(2,303)	(878)
DISTRIBUTABLE RESERVES	(6,482)	(5,057)
	204,657	194,263

Under the Croatian Companies Act, the Bank is required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the Bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND SECURITIES CUSTODY SERVICES

The Bank manages funds for and on behalf of third parties. Those funds are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to third parties, and the Bank has no liabilities with respect to these transactions. The Bank charges a fee for these services.

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
ASSETS		
LOANS TO INDIVIDUALS	9,062	9,115
CORPORATE LOANS	706	700
CASH	524	523
TOTAL ASSETS	10,292	10,338



LIABILITIES		
FINANCIAL INSTITUTIONS	7,547	7,568
PUBLIC SECTOR	950	957
CORPORATE	1,795	1,813
TOTAL LIABILITIES	10,292	10,338

The Bank provides security custody services on behalf of third parties. The values of the instruments held in the Bank's custody are shown below:

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
VALUE OF FINANCIAL INSTRUMENTS	911,291	777,027

30. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal cases

At 31 December 2021 there were several legal cases outstanding against the Bank. Based on the Management's estimate, a provision for potential losses on the litigations has been made in the amount of HRK 8,376 thousand (2020: HRK 622 thousand).

b) Guarantees, letters of credit and undrawn loans commitments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year-end were as follows:

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
COMMITMENTS – UNDRAWN LOANS	250,206	193,726
COMMITMENTS – UNDRAWN FRAME LOANS ON TRANSACTION ACCOUNTS	167,653	155,316
GUARANTEES	77,713	65,354
FX LETTERS OF CREDIT	-	109
	495,572	414,505

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans.

c) Operating lease

Future minimum payments under operating leases are as follows:

IN HRK THOUSANDS	31 DECEMBER 2021	31 DECEMBER 2020
UP TO 1 YEAR	66	68
TOTAL	66	68

Upon the expiry of the lease term, the lease agreements are renewable at the market price. The Bank has operating lease agreements for business premises, vehicles and equipment.

With the application of the new IFRS 16 standard since 2019, the value of operating lease liabilities decreased significantly because long-term leases and leases of assets of more than \$ 5,000 are recorded in the books of account as assets with a right of use and lease liabilities (Note 18.1).

At 31 December 2021 and 31 December 2020, liabilities stated under operating leases refers to the lease of business premises for ATMs, and contracts for this type of lease are classified as leases of low-value assets. All payments associated with such leases are recognized in the Bank's books of account as an expense over the term of the lease.

31. RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, the substance of the relationship is considered, and not merely the legal form. The Bank does not form a group of related parties and has no subsidiaries.

Transactions with key management personnel and related persons are presented the following table:

IN HRK THOUSANDS	KEY MANAGEMENT PERSONNEL AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2021	2020	2021	2020
LOANS				
BALANCE AT BEGINNING OF THE YEAR	1,023	1,624	22,797	22,645
INCREASE / (DECREASE) DURING YEAR	(12)	(601)	20,737	152
BALANCE AT THE END OF THE YEAR	1,011	1,023	43,534	22,797
REALISED INTEREST INCOME	29	32	1,220	1,249
DEPOSITS RECEIVED				
BALANCE AT BEGINNING OF THE YEAR	5,063	4,862	1,664	2,800
INCREASE / (DECREASE) DURING THE YEAR	962	201	16,834	(1,136)
BALANCE AT THE END OF THE YEAR	6,025	5,063	18,498	1,664
REALISED INTEREST EXPENSE	4	6	13	5

Management remuneration

IN HRK THOUSANDS	2021	2020
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	15,814	16,014



The Bank's Management Board consists of three members. The gross salaries and other short-term benefits comprise the total payroll costs and benefits in kind provided to the members of the Management Board, the Bank's officers holding general power of attorney as well as provisions for bonuses and fees to the Supervisory Board members.

In 2021 and 2020, there are no projected costs for management bonuses. Remuneration to the members of the Supervisory Board in 2021 amounts to HRK 5,444 thousand (in 2020: HRK 4,457 thousand).

Number of shares held by members of the Bank's Management Board and the Supervisory Board:

	31 DECEMBER 2021	31 DECEMBER 2020
MANAGEMENT BOARD	10,727	10,676
SUPERVISORY BOARD	132,786	132,786
TOTAL	143,513	143,462

b) Transactions with other parties related with the Bank are presented the following table:

IN HRK THOUSANDS	2021	2020
DUE FROM BANKS		
OPENING BALANCE	3,256	2,251
INCREASE / (DECREASE) DURING YEAR	(1,293)	1,004
CLOSING BALANCE	1,963	3,255
DUE TO BANKS AND LIABILITIES FROM ISSUED SUBORDINATED INSTRUMENTS		
OPENING BALANCE	15,239	15,894
INCREASE / (DECREASE) DURING YEAR	796	(655)
CLOSING BALANCE	16,035	15,239
IN HRK THOUSANDS	2021	2020
INTEREST INCOME	-	-
FEE AND COMMISSION INCOME	149	80
TOTAL INCOME	149	80
INTEREST EXPENSE	602	603
FEE AND COMMISSION EXPENSE	10	9
TOTAL EXPENSE	612	612

32. FINANCIAL RISK MANAGEMENT OBJECTIVES

This note provides details of the Bank's exposure to financial risks and describes the methods used by the Management to control the risk.

The Bank's operations are exposed to various types of financial risks and some of these operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to such operations. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

Risk management policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most significant types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and debt securities price risk. Limits are set for all the risk types. The methodology and models for managing the operational risk have been developed.

At the level of the Bank, a comprehensive risk management system has been established, introducing policies and procedures, setting limits for acceptable levels of risk for the Bank and monitoring their implementation.

The risk management strategy is in line with the Bank's business strategy; both are determined and adjusted on an annual basis. The risk appetite is updated annually and thus reflects the conclusions of the Bank's risk management strategy and business strategy.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Bank manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management is the responsibility of the Credit Risk Management Division, and risk control is the responsibility of the Risk Management Division.

Credit risk is managed in accordance with policies, procedures and other internal guidelines. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's Management Board.

The structure of loans over a certain period is defined by the Credit Policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. Given that loans are approved using the "four eyes" principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected.



The Credit Policy defines and sets out policies and procedures for extending loans to legal persons and individuals. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank applies prudent methods and models in the process of assessing credit risk.

In order to improve credit risk management, the Bank estimates the creditworthiness of its clients and, in order to reduce the credit risk, takes the appropriate insurance instruments.

Credit risk management includes assessing the credit risk of placements, subsequently monitoring and estimating the recoverability of placements and off-balance sheet liabilities and carrying out the required impairment losses and provisions for identified losses on placements and off-balance sheet liabilities.

When assessing the credit risk of placements, the following is estimated:

- (1) client's creditworthiness,
- (2) debtor's timeliness in settling obligations to the Bank and other creditors and
- (3) collateral quality per exposure.

For the purpose of determining creditworthiness, a Rating Model for business entities was developed - double-entry bookkeeping (DEB) and single-entry bookkeeping (SEB) and a Rating Model for natural persons (PI). The rating for businesses has ratings from 1 to 10 for Stage 1 and 2. The rating for individuals has ratings from 1 to 8 for Stage 1 and 2.

Ratings consist of the following components:

- (1) internal behaviour - behavioral scoring,
- (2) application - financial - application scoring with citizens, i.e. financial scoring with legal entities

Each rating is assigned a PD - Probability of non-fulfillment of financial obligations. One-year PD is awarded for stage 1 and lifelong PD for stage 2 (cumulative PD). Loss upon occurrence of the status of non-fulfillment of financial obligations - LGD was determined by segments of rating model and collateralisation.

The Bank has established a loan portfolio quality monitoring process to identify potential changes in customers' creditworthiness in a timely manner, including periodic collateral assessments. Potential changes in creditworthiness are subject to regular review of placements. The purpose of the portfolio credit quality monitoring process is to enable the Bank to assess potential loss as a result of the risk to which it is exposed and to take corrective action. In the process of monitoring placements, it is continuously checked whether there are elements of deterioration of the client's financial position, exposure to currency risk or risk due to a decrease in the value of the collateral.

Depending on the assessment of the above criteria, the Bank allocates all placements to the following categories:

- a. the risk group A, which consists of the risk subgroups A1 and A2,
- b. a risk group B, consisting of risk subgroups B1, B2 and B3 and
- c. a risk group C.

The bank allocates credit exposures for which no significant increase in credit risk has been established since the initial recognition date in the risk subgroup A1 (stage

1). Impairment losses and provisions for credit losses are determined based on the 12-month expected credit losses that represent part of the life-long expected credit losses that would occur if the default status of the obligation within the next 12 months is reached.

Loans to customers classified in risk category A1 are placements where the delay in settling the liability is no longer than 30 days and there is no significant increase in credit risk after initial recognition.

The Bank classifies in the risk subgroup A2 (stage 2) credit risk exposures that have been identified as a significant increase in credit risk since the initial recognition date, but there is no objective evidence of impairment. The impairment allowances and provisions for credit losses are determined based on lifelong expected credit losses.

The Bank as indicator for determining a significant increase in debtor's credit risk considers the following: the debtor's delay in settling liabilities to the Bank for a term longer than 30 days, not exceeding 90 days, a blockage of debtor's account for an uninterrupted duration of more than 15 days in the last year and a significant deterioration in the credit rating compared to credit rating at the time of initial recognition (for more than four rating classes).

The slowdown in economic activity as a result of the COVID-19 pandemic affected estimates of the recoverability of credit exposures and the calculation of related provisions for credit losses. The amount of provisions for credit losses is determined by the parameters probability of entering the default status of PD and loss due to the occurrence of default status of LGD) with the expected development of macroeconomic scenarios.

The Bank updated the macroeconomic scenarios, taking into account, in addition to the baseline scenario, the adverse scenario and the positive scenario, weighting factors were applied.

The Bank allocates credit exposures in the status of non-fulfillment of financial liabilities in risk group B (stage 3 - impairment loss). These are exposures in which the non-fulfillment of obligations under the Decision on Risk Classification and the Method of Determining Credit Losses have occurred.

The default status is examined on the basis of:

- Criteria for regular payment: the debtor has not fulfilled its due obligation with a significant amount of due debt for more than 90 days,
- Probability criteria: an analysis of the probability that a borrower will not be able to meet its credit obligations in full ("unlikely to pay" criterion (UTP)), it is estimated that the borrower is unlikely to settle the obligations under the placement in full without the need to activate collateral, regardless of the existence of any amount in arrears,
- Forced restructuring and restructured exposure classified as irregular placements
- A debtor's new exposure must qualify as irregular if the debtor's previous irregular exposure has been sold or written off.

The Bank also considers restructured exposures as classified in the status of non-fulfillment of liabilities as well as exposures to debtors over which bankruptcy or liquidation is initiated. The level of impairment for certain exposures classified in risk groups B is determined as a positive difference between the gross carrying amount of each exposure and the present value of the estimated future borrower's cash flows



„Forborne“ and restructured loans

discounted using the effective interest rate, taking into account the minimum levels of impairment prescribed by the Decision. Exposures in risk group B, depending on the percentage of placement value adjustments, are classified in the risk subgroup B-1 (placements for which the stated loss does not exceed 30% of the amount of receivables), B-2 (placements for which the stated loss amounts to more than 30% to 70% receivables) and B-3 (placements for which the stated loss amounts to more than 70% and less than 100% of the amount of receivables). Risk class C (Stage 3) covers placements with a 100% correction value.

The bank sometimes makes concessions or changes the original terms of the loan in response to the borrower's financial difficulties (so-called "forbearance" activities) in order to maximize the possibility of collection and minimize the risk of "default" rather than take possession or otherwise collect existing collateral. At the Bank's level, a loan is classified as "forborne" when concessions and modifications result from the debtor's financial difficulties and the creditor would not have agreed to them if the debtor had adequate financial capacity. "Forbearance" activities may include concessions such as refinancing, moratorium, maturity extension, interest debt repayment plan rescheduling, interest rate reduction, etc. If any of these concessions lead to a loss for the Bank, this placement is assessed and managed as non-performing and is therefore classified as Level 3 for the purpose of calculating expected credit losses, except for placements where the difference in NPV (ie net present value) after restructuring is less than 1%, and which are classified as risky group A2. Restructured exposures that are likely to result in a reduction in the debtor's financial liability due to a significant discharge or deferral of principal and/or interest payments that were allocated to risk group A prior to restructuring are allocated at least to risk subgroup B1 if the NPV difference after restructuring is greater than 1%.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and managing its positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and equity. Liquidity risk is continually assessed by identifying and monitoring changes in the level of funding required to meet business goals and targets set in terms of the overall Bank's strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

Effective liquidity risk management, through the assessment of necessary cash flows both in regular operations and in case of extraordinary circumstances, enables the Bank to timely fulfill due obligations, which are influenced by internal (business decisions of the Bank) and external events, but also the behaviour of other participants on the financial market.

The Bank identifies three basic forms of liquidity risk:

- the risk of mismatching liquidity (arising from the mismatch between assets and liabilities of the Bank)
- the risk of increased liquidity (arising from the need to maintain higher levels of liquid assets that may be needed in the future) and
- market liquidity risk (resulting from potential lower liquidity of the financial market, resulting in the impossibility of selling or obtaining liquid assets).

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Financial Markets Division manages liquidity reserves daily and makes sure to respond to customer needs in a satisfactory way.

Concentration indicators indicate the concentration in the deposit portfolio (top 100 individual and corporate depositors in the total deposits), which is regularly reported to the Bank's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.

The structural liquidity level indicators reflect the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

The Bank has prescribed and established appropriate control activities and distributed duties, provided adequate internal controls and appropriate administrative and accounting procedures conducted within the Bank's daily activities.

Liquidity risk management is organized through the Board, the Financial markets sector, the Risk management sector, the Risk control department and the Asset and liability management committee.

Market risk

The majority of available-for-sale instruments are subject to market risk, which is the risk that an instrument may be impaired as a result of future changes in market conditions. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank. Changes in market rates imply: all changes in interest rates, exchange rates, prices of financial instruments, indices or other market factors that affect the value of financial instruments. The instruments are recognised at fair value and all changes in market conditions directly affect the revaluation reserves. The Bank manages its instruments traded on the market in response to changing market conditions.

Limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy guidance.

The Bank has established clearly defined responsibilities and responsibilities in the process of managing market risk.

Market Risk Management is organized through the Board of Directors and the Risk Control Department, and the operational and organizational separation of the transaction management function from the function of supporting the Treasury business operations and functions, and the Asset and Liability Management Committee.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Bank's Management Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Department for management of the market, operational and other risks is



responsible for daily independent monitoring and control of the use of the limits to which the treasury operations are exposed. Weekly reports by the Financial Markets Division with data on currency risk exposure are also submitted to the Bank's Management Board. The Risk Control Department submits to the Bank's Management Board an overview of the total currency risk exposure in regular and quarterly risk reports.

In managing its market risks, the Bank resorts to various risk protection strategies. Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a confidence level of 99 percent based on 260 days. However, this approach does not preclude the occurrence of losses beyond the defined limits in case of major changes in market terms and conditions.

Currency risk

Currency risk is the risk of losses caused by unfavourable exchange rate movements, and it arises from lending, deposit and investment activities. The Bank manages the risk of fluctuations in the relevant foreign currency exchange rates that may affect its financial position and cash flows. The currency risk is monitored on the overall balance sheet level in terms of foreign exchange open positions, as specified by applicable legislation, as well as by internal limits on a daily basis.

The currency position is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Risk Management Division prepares regular management reports. The overall exposure by a foreign currency position is reflected in the prescribed percentages. The Risk Management Division monitors the exposure to currency risk and reports to the Management Board on a quarterly basis.

Interest rate risk

The interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. Interest rate risk arises as a result of mismatched maturities of assets and sources of financing.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-bearing assets and liabilities mature or reprice at different times or in differing amounts. In case of the floating rate, the assets and liabilities are also exposed to the basis risk, which is the difference in repricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using repricing gap analysis that reflects the sensitivity to changes in interest rates, the net interest income and economic value of equity. When market interest rates are consistent with the Bank's business strategy, risk management activities are aimed at optimising the net interest income and economic value of equity.

Interest rate risk is reported through an interest rate gap report by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

The Bank's interest rate risk management system is established in accordance with the Bank's needs with regard to the size, volume and complexity of business processes, and as such has the function of identifying, measuring, monitoring and controlling all significant sources of interest rate risk. The management of interest rate risk is organized through the Board of Directors, the Risk Management Division, the Risk Control Department, the Financial Market Sector and the Asset and Liability Management Committee, with the participation of all organizational units taking over interest rate risk.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments.

Derivative financial assets and liabilities

The Bank enters into derivative financial assets and liabilities primarily to satisfy the needs and requirements of the customers. Derivative financial assets and liabilities used by the Bank include a one-way foreign currency clause.

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Directorate for Market, Operational and Other Risk Management and includes collection of data, preparation of reports and analyses of the current and potential operational risk events and the underlying root causes, as well as providing information that will allow operational risk to be managed effectively.

Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA)
- Standardised Approach (SA)
- Advanced Measurement Approach (AMA)
- The Bank has opted to adopt the Basic Indicator Approach (BIA).

Directorate for Market, Operational and Other Risk Management monitors the operational risk exposure by reference to the defined internal by-laws and standards, collecting operational risk data (risk events, key risk indicators, sensitivity analyses), proposing measures to reduce and/or avoid operational risk, monitoring of and reporting about the Bank's operational risk profile, participating in the implementation of new products and significant changes, organising operational risk training and providing regular operational risk exposure reports to the Bank's Management Board, the Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Bank's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Bank.

For the purpose of protection against operational risk, the Bank has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed by comparing the losses against the risk



assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

Operational risk exposure in 2021 is also affected by the project of introducing the EUR, which aims timely harmonization of the Bank with the National Plan of the exchange of the Croatian Kuna with the Euro, by the Act on the Introduction of the Euro as the Official Currency and adjustments to other legislation.

The Bank internally launched the introduction project, formed a project team and holders to adjust certain areas of business to change currency, and contracted the support of an external supplier to implement the project to ensure compliance with deadlines, business continuity and integrity after the changeover to the euro as the official currency. Additional operational risk related to the replacement of the Croatian kuna by the euro arises from possible additional significant changes in laws and regulations.

Capital management

Credit institutions in the Republic of Croatia have been engaged in prudential calculations and reporting pursuant to Capital Requirements Regulation (EU) No. 575/2013 (CRR), Directive 2013/36/EU (CRD IV), technical standards and other relevant regulations prescribed by the European Banking Authority (EBA) and the Croatian National Bank. The Bank has successfully managed capital to cover the risks arising from its operations and meet all the capital requirements set by the Croatian National Bank and the European Banking Authority. At 31 December 2020, the total capital adequacy ratio is 19.37%, and the and the Tier 1 and Common Equity Tier 1 capital ratio is 16.90%.

Based on the capital adequacy levels, the Bank meets all of the limits prescribed in Article 92 of Directive (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment funds and amending Directive (EU) No. 648/2012 (EU Official Journal L 176/2013), according to which institutions must meet the following capital requirements:

- (a) a Common Equity Tier 1 capital ratio of 4.5%;
- (b) a Tier 1 capital ratio of 6%;
- (c) a total capital ratio of 8%.

Furthermore, the Bank's capital includes the capital conservation buffer which, pursuant to Article 117 of the Credit Institutions Act (Official Gazette No. 159/2013) amounts to 2.5%, and the structural systemic risk buffer of 1.5% based on the Decision on the application of the structural systemic risk buffer (Official Gazette 61/2014).

Included in the Common Equity Tier 1 capital are the share capital, the share premium, accumulated other comprehensive income, other and general banking risk reserve funds. Items deducted from the capital are accumulated losses, intangible assets and purchased own shares.

Supplementary (Tier 2) capital items include debt securities issued by the Bank, specifically, subordinated bonds in the amount of HRK 68,545 thousand (2020: HRK 62,510 thousand).

IN HRK THOUSANDS	2021	2020
REGULATORY CAPITAL		
CORE TIER 1 CAPITAL	435,976	428,091
COMMON EQUITY TIER 1 CAPITAL	435,976	428,091
TIER 2 CAPITAL	68,545	62,510
TOTAL REGULATORY CAPITAL	504,521	490,601
CAPITAL ADEQUACY RATIO IN %	19.15%	19.37%
MINIMUM CAPITAL ADEQUACY RATIO IN %	8.00%	8.00%

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, i.e. an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Bank considers the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Furthermore, for the purposes of financial reporting, fair value measurements were classified into Level 1, Level 2 or Level 3 inputs, by reference to the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The tables below analyse financial instruments that have been reduced to fair value after their first recognition, classified into three groups depending on the availability of observable fair value indicators:

2021 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT				
EQUITY SECURITIES	171,325	-	-	171,325
TOTAL	171,325	-	-	171,325



2021 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
EQUITY SECURITIES	32,185	-	6,583	38,768
DEBT SECURITIES	692,343	-	38,627	730,970
TOTAL	724,528	-	45,210	769,738
2020 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT				
EQUITY SECURITIES	183,533	-	-	183,533
TOTAL	183,533	-	-	183,533
2020 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
EQUITY SECURITIES	30,415	-	6,365	36,780
DEBT SECURITIES	657,977	-	19,365	677,342
TOTAL	688,392	-	25,730	714,122

At level 3 there are the equity securities of Spin Valis d.d., HROK d.d., Central Clearing Depository Company, SWIFT Belgium, Franck d.d., VISA Inc.- class, Atlas banka a.d. Podgorica, and Proficio d.d. which are valued according to the model or the cost of procurement. When valuing equity securities Bank uses fair value assessment techniques using the comparable companies method and the book value method, which are the primary valuation methods.

Level 3 includes the debt securities of ICF Progress and Raiffeisenbank Austria D.D. Zagreb.

Long-term debt securities listed on an inactive market are valued using the effective interest method.

During the year there were no changes in equity securities levels.

During the year, a change was made for debt securities from level 3 to level 1 for the corporate bond of the issuer Jadran - Galenski Laboratorij d.d., ISIN: HRJDGLO24XA2.

Fair value measurement

a) Assets at fair value through profit and loss statement

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	FAIR VALUE AT (IN HRK'000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31 DECEMBER 2021	31 DECEMBER 2020			
EQUITY SECURITIES	171,325	183,533	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
TOTAL EQUITY SECURITIES:	171,325	183,533			

b) Assets at fair value through other comprehensive income

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	FAIR VALUE AT (IN HRK'000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31 DECEMBER 2021	31 DECEMBER 2020			
EQUITY SECURITIES	32,185	30,415	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
EQUITY SECURITIES	6,583	6,365	LEVEL 3	VALUATION IN ACCORDANCE WITH VALUATION TECHNIQUES OR VALUATION AT COST DUE TO IMMATERIALITY OF THE INVESTMENT	N/A
TOTAL EQUITY SECURITIES:	38,768	36,780			
DEBT SECURITIES	692,343	657,977	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
DEBT SECURITIES	-	-	LEVEL 2	VALUATION ACCORDING TO THE SIMILAR ASSETS (TREASURY BILLS AND COMMERCIAL BILLS ARE ADJUSTED TO PRICES FROM THE MOST RECENT AUCTION OF TREASURY BILLS)	N/A
DEBT SECURITIES	38,627	19,365	LEVEL 3	VALUATION BY THE DISCOUNTED CASH FLOW (DCF) METHOD	N/A
TOTAL DEBT SECURITIES:	730,970	677,342			
TOTAL SECURITIES:	769,738	714,122			

Movement of financial assets in Level 3

2021 IN HRK THOUSANDS	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
OPENING BALANCE	25,730
TOTAL GAINS AND LOSSES	524
PURCHASE OF ASSETS	38,627
RECLASSIFIED FROM LEVEL 3	(19,671)
CLOSING BALANCE	45,210

2020 IN HRK THOUSANDS	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
OPENING BALANCE	39,985
TOTAL GAINS AND LOSSES	(775)
DISPOSAL OF ASSETS	(424)
MATURED ASSETS	(2,274)
RECLASSIFIED FROM LEVEL 3	(10,782)
CLOSING BALANCE	25,730

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2021 and 2020 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

AT 31 DECEMBER 2021 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON- INTEREST BEARING	TOTAL
ASSETS	42,897	-	-	-	701,217	744,114
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	177,874	177,874
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	6,012	-	-	6,012
BALANCES WITH OTHER BANKS	1,451,625	120,771	232,075	355,301	2,441	2,162,213
LOANS TO CUSTOMERS	-	-	-	-	171,325	171,325
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	2,427	7,673	37,020	683,851	38,767	769,738
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	42,897	-	-	-	701,217	744,114
TOTAL ASSETS	1,496,949	128,444	275,107	1,039,152	1,091,624	4,031,276
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	1,004	-	-	-	14,913	15,917
AMOUNTS DUE TO CUSTOMERS	2,460,930	91,817	342,553	218,085	7,976	3,121,361
OTHER BORROWINGS	1,032	5,936	48,809	375,890	-	431,667
HYBRID INSTRUMENTS ISSUED	-	-	495	70,711	-	71,206
TOTAL LIABILITIES	2,462,966	97,753	391,857	664,686	22,889	3,640,151
NET INTEREST EXPOSURE	(966,017)	30,691	(116,750)	374,466	1,068,735	391,125

AT 31 DECEMBER 2020 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS 3 MONTHS	1 YEAR	OVER 1 YEAR	NON- INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	133,941	-	-	-	636,655	770,596
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	160,232	160,232
BALANCES WITH OTHER BANKS	-	-	-	-	1,390	1,390
LOANS TO CUSTOMERS	1,330,998	89,724	245,751	262,790	0	1,929,263
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	183,533	183,533
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	3,442	12,681	32,204	629,017	36,778	714,122
UKUPNO IMOVINA	1,468,381	102,405	277,955	891,807	1,018,588	3,759,136
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	16,183	-	-	-	12,020	28,203
AMOUNTS DUE TO CUSTOMERS	2,048,119	146,457	365,584	201,048	5,861	2,767,069
OTHER BORROWINGS	68,021	6,270	20,514	407,793	-	502,598
HYBRID INSTRUMENTS ISSUED	-	0	27,665	70,899	-	98,564
TOTAL LIABILITIES	2,132,323	152,727	413,763	679,740	17,881	3,396,434
NET INTEREST EXPOSURE	(663,942)	(50,322)	(135,808)	212,067	1,000,707	362,702

In 2021, the weighted effective interest rates on loans to customers stood at 4.40% (2020: 4.52%).

In 2021, the weighted effective interest rates on deposits received from customers stood at 0.12% (2020: 0.19%).

The table below presents the sensitivity of the Bank's assets and liabilities at variable interest rates to changes in the interest rates. The growth assumptions were derived from the actual growth or decline in the interest rates in 2021 and 2020. A change in the interest rates has a direct impact on the net interest income. By applying the same percentages to simulate a decline in interest rates, the result would be an interest expense in the same amount.

IN HRK THOUSANDS	ASSUMED INCREASE IN INTEREST RATE	IMPACT ON 2021 PROFIT OR LOSS	IMPACT ON 2020 PROFIT OR LOSS
ASSETS	5% RELATIVE	2,852	2,710
LIABILITIES	5% RELATIVE	(127)	(168)
IMPACT ON THE NET INTEREST INCOME		2,725	2,542

35. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of a currency clause, which has the same effect as denominating HRK assets in other currencies.

AT 31 DECEMBER 2021 (IN HRK THOUSANDS)	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	113,365	18,429	19,018	150,812	593,302	744,114
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	177,874	177,874
BALANCES WITH OTHER BANKS	-	-	-	-	6,012	6,012
LOANS TO CUSTOMERS	927,975	1,514	-	929,489	1,232,724	2,162,213
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	71,517	-	-	71,517	99,808	171,325
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	248,581	103,420	23,380	375,381	394,357	769,738
INVESTMENT PROPERTY	-	-	-	-	35,178	35,178
INTANGIBLE ASSETS	-	-	-	-	49,017	49,017
PROPERTY AND EQUIPMENT	-	-	-	-	46,070	46,070
RIGHT-OF-USE ASSETS	-	-	-	-	13,809	13,809
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	262	262
DEFERRED TAX ASSETS	-	-	-	-	4,269	4,269
OTHER ASSETS	-	-	-	-	19,518	19,534
TOTAL ASSETS	1,361,451	123,363	42,401	1,527,215	2,672,200	4,199,415

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	13,255	-	2,657	15,912	5	15,917
AMOUNTS DUE TO CUSTOMERS	1,269,105	123,276	39,441	1,431,822	1,689,539	3,121,361
OTHER BORROWINGS	17,983	-	-	17,983	413,684	431,667
OTHER LIABILITIES	-	70	-	70	47,816	47,886
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	541	24	-	565	14,230	14,795
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	71,206	-	-	71,206	-	71,206
TOTAL LIABILITIES	1,372,090	123,370	42,098	1,537,558	2,165,274	3,702,832

EQUITY

SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(1,184)	(1,184)
OTHER RESERVES	141	68	39	248	204,409	204,657
PROFIT FOR THE YEAR	-	-	-	-	15,234	15,234
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	7,361	7,361
TOTAL SHAREHOLDERS' EQUITY	141	68	39	248	496,335	496,583
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,372,231	123,438	42,137	1,537,806	2,661,609	4,199,415
NET FX EXPOSURE	(10,780)	(75)	264	(10,591)	10,591	-

AT 31 DECEMBER 2020 (IN HRK THOUSANDS)	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	190,837	50,513	16,264	257,614	512,982	770,596
BALANCES WITH THE CROATIAN	-	-	-	-	160,232	160,232
BALANCES WITH OTHER BANKS	1,390	-	-	1,390	-	1,390
LOANS TO CUSTOMERS	832,891	1,298	-	834,189	1,095,074	1,929,263
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	60,272	-	-	60,272	123,261	183,533
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	197,180	77,699	22,526	297,405	416,717	714,122
INVESTMENT PROPERTY	-	-	-	-	41,247	41,247
INTANGIBLE ASSETS	-	-	-	-	42,623	42,623
PROPERTY AND EQUIPMENT	-	-	-	-	48,982	48,982
RIGHT-OF-USE ASSETS	-	-	-	-	14,895	14,895
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	998	998
DEFERRED TAX ASSETS	-	-	-	-	5,151	5,151
OTHER ASSETS	20	3,470	2	3,492	20,908	24,400
TOTAL ASSETS	1,282,590	132,980	38,792	1,454,362	2,483,070	3,937,432
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	25,715	-	2,477	28,192	11	28,203
AMOUNTS DUE TO CUSTOMERS	1,134,177	131,939	35,661	1,301,777	1,465,292	2,767,069
OTHER BORROWINGS	23,174	-	-	23,174	479,424	502,598
OTHER LIABILITIES	6,073	20	16	6,109	48,024	54,133
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	324	24	-	348	5,002	5,350
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	98,564	-	-	98,564	-	98,564
TOTAL LIABILITIES	1,288,027	131,983	38,154	1,458,164	1,997,753	3,455,917
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(1,184)	(1,184)
OTHER RESERVES	69	677	27	773	193,490	194,263
PROFIT FOR THE YEAR	-	-	-	-	11,819	11,819
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	6,102	6,102
TOTAL SHAREHOLDERS' EQUITY	69	677	27	773	480,742	481,515
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,288,096	132,660	38,181	1,458,937	2,478,495	3,937,432
NET FX EXPOSURE	(5,506)	320	611	(4,575)	4,575	-

The table below details the sensitivity of the Bank's net assets to an upward change of the mid-point exchange rate of the CNB i.e. an increase in the relevant exchange rate and its impact on profit or loss, showing a summary amount of the simplified increase in all currencies by 2%. By applying the same assumed percentage to a decrease in the mid-point exchange rate of the CNB, there would be the same but opposite impact on profit or loss by currency on a net principle i.e. the sum of the effects for all currencies would result in an expense for 2021 and an income for 2021. The change in the interest rates would be reflected through the income statement as foreign exchange gains or losses.

CURRENCY AT 31 DECEMBER 2021 IN HRK THOUSANDS	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS
		ASSETS	LIABILITIES	NET
ASSETS	2.00%	30,544	-	30,544
LIABILITIES	2.00%	-	30,756	30,756
NET ASSETS / (LIABILITIES)		30,544	30,756	(212)

CURRENCY AT 31 DECEMBER 2020 IN HRK THOUSANDS	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS
		ASSETS	LIABILITIES	NET
ASSETS	2.00%	29,087	-	29,087
LIABILITIES	2.00%	-	29,179	29,179
NET ASSETS / (LIABILITIES)		29,087	29,179	(92)

36. LIQUIDITY RISK

AT 31 DECEMBER 2021 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	744,114	-	-	-	-	744,114
BALANCES WITH THE CROATIAN NATIONAL BANK	177,874	-	-	-	-	177,874
BALANCES WITH OTHER BANKS	-	-	6,012	-	-	6,012
LOANS TO CUSTOMERS	220,194	148,157	371,400	491,211	931,251	2,162,213
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	171,325	-	-	-	-	171,325
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	41,194	7,673	37,020	204,185	479,666	769,738
FINANCIAL ASSETS	1,354,701	155,830	414,432	695,396	1,410,917	4,031,276
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	15,917	-	-	-	-	15,917
AMOUNTS DUE TO CUSTOMERS	2,467,542	91,817	342,696	198,968	20,338	3,121,361
OTHER BORROWED FUNDS	1,032	5,936	48,809	61,470	314,420	431,667
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	495	-	70,711	71,206
FINANCIAL LIABILITIES	2,484,491	97,753	392,000	260,438	405,469	3,640,151
CUMULATIVE GAP	(1,129,790)	58,077	22,432	434,958	1,005,448	391,125
AT 31 DECEMBER 2020 IN HRK THOUSANDS						
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	770,596	-	-	-	-	770,596
BALANCES WITH THE CROATIAN NATIONAL BANK	160,232	-	-	-	-	160,232
BALANCES WITH OTHER BANKS	-	1,390	-	-	-	1,390
LOANS TO CUSTOMERS	223,660	134,839	370,862	399,675	800,227	1,929,263
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	183,533	-	-	-	-	183,533
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	40,221	12,681	32,204	166,638	462,378	714,122
FINANCIAL ASSETS	1,378,242	148,910	403,066	566,313	1,262,605	3,759,136
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	28,203	-	-	-	-	28,203
AMOUNTS DUE TO CUSTOMERS	2,052,657	146,457	365,584	186,435	15,936	2,767,069
OTHER BORROWED FUNDS	68,021	6,270	20,514	101,784	306,009	502,598
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	27,665	-	70,899	98,564
FINANCIAL LIABILITIES	2,148,881	152,727	413,763	288,219	392,844	3,396,434
CUMULATIVE GAP	(770,639)	(3,817)	(10,697)	278,094	869,761	362,702

37. CREDIT RISK

a) Overall exposure to credit risk – on-balance sheet and off-balance sheet

IN HRK THOUSANDS AT 31 DECEMBER 2021:	GROSS EXPOSURE	IMPAIRMENT ALLOWANCES	NET EXPOSURE
A. BALANCE-SHEET EXPOSURE			
BALANCES WITH THE CROATIAN NATIONAL BANK	177,927	(53)	177,874
BALANCES WITH OTHER BANKS	6,031	(19)	6,012
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	171,325	-	171,325
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	779,759	(10,021)	769,738
LOANS TO CUSTOMERS			
- LEVEL 1	1,977,827	(19,199)	1,958,628
- LEVEL 2	75,509	(3,256)	72,253
- LEVEL 3	313,731	(182,399)	131,332
TOTAL BALANCE SHEET EXPOSURE	3,502,109	(214,947)	3,287,162
B. OFF-BALANCE SHEET EXPOSURE			
CLIENTS			
- LEVEL 1	493,664	(6,205)	487,459
- LEVEL 2	1,345	(20)	1,325
- LEVEL 3	564	(194)	370
TOTAL OFF-BALANCE SHEET EXPOSURE	495,573	(6,419)	489,154
TOTAL EXPOSURE (A+B)	3,997,682	(221,366)	3,776,316
IN HRK THOUSANDS AT 31 DECEMBER 2020:			
A. BALANCE-SHEET EXPOSURE			
BALANCES WITH THE CROATIAN NATIONAL BANK	160,280	(48)	160,232
BALANCES WITH OTHER BANKS	1,394	(4)	1,390
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	183,533	-	183,533
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	724,156	(10,034)	714,122
LOANS TO CUSTOMERS	1,733,229	(17,173)	1,716,056
- LEVEL 1	49,863	(1,872)	47,992
- LEVEL 2	370,288	(205,073)	165,215
- LEVEL 3	160,280	(48)	160,232
TOTAL BALANCE SHEET EXPOSURE	3,222,743	(234,204)	2,988,540
B. OFF-BALANCE SHEET EXPOSURE			
CLIENTS			
- LEVEL 1	412,837	(4,479)	408,358
- LEVEL 2	1,075	(20)	1,055
- LEVEL 3	593	(228)	365
TOTAL OFF-BALANCE SHEET EXPOSURE	414,505	4,727	409,778
TOTAL EXPOSURE (A+B)	3,637,248	(229,477)	3,398,318

b) Past due but unpaid receivables

Outstanding receivables comprise amounts with unimpaired principal, determined on the level of the individual placement, including outstanding interest. Other receivables past due comprise outstanding balances, the collection of which is still in progress.

IN HRK THOUSANDS AT 31 DECEMBER 2021	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
LOANS TO CUSTOMERS							
INDIVIDUALS	4,974	2,282	1,248	3,929	2,864	3,865	27,069
CORPORATE CUSTOMERS	2,465	1,466	1,338	927	7,573	8,836	91,341
PUBLIC AND OTHER SECTORS	8,825	1	-	-	1	-	7
OTHER RECEIVABLES PAST DUE	1,859	941	237	168	317	221	2,592
TOTAL PAST DUE BUT UNPAID RECEIVABLES	18,123	4,690	2,823	5,024	10,755	12,922	121,009
IN HRK THOUSANDS AT 31 DECEMBER 2020	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
LOANS TO CUSTOMER							
INDIVIDUALS	5,552	1,115	1,118	1,177	2,309	1,035	30,629
CORPORATE CUSTOMERS	14,815	712	1,267	8,014	11,979	7,508	111,604
PUBLIC AND OTHER SECTORS	6,464	1	-	-	-	1	6
OTHER RECEIVABLES PAST DUE	5,277	816	92	259	278	1,589	2,672
TOTAL PAST DUE BUT UNPAID RECEIVABLES	32,108	2,644	2,477	9,450	14,566	10,133	144,911

c) Coverage by collateral

IN HRK THOUSANDS AT 31 DECEMBER 2021	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTURMENTS	NO INSTURMENTS OF COLLATERAL
A. BALANCE-SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	177,874
BALANCES WITH OTHER BANKS	-	-	-	5,844	168
FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-	-	-	171,325
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	769,738
LOANS TO CUSTOMERS	36,234	433,387	329,965	153,059	1,209,568
TOTAL BALANCE SHEET EXPOSURE	36,234	433,387	329,965	158,903	2,328,673
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	8,687	14,646	38,495	14,058	419,686
TOTAL OFF-BALANCE SHEET EXPOSURE	8,687	14,646	38,495	14,058	419,686
TOTAL EXPOSURE (A+B)	44,921	448,033	368,460	172,961	2,748,359
IN HRK THOUSANDS AT 31 DECEMBER 2020	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTURMENTS	NO INSTURMENTS OF COLLATERAL
A. BALANCE-SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	160,232
BALANCES WITH OTHER BANKS	-	-	-	-	1,390
FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-	-	-	183,533
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	714,122
LOANS TO CUSTOMERS	32,000	356,285	395,705	102,140	1,043,133
TOTAL BALANCE SHEET EXPOSURE	32,000	356,285	395,705	102,140	2,102,410
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	1,762	8,528	32,138	5,298	366,779
TOTAL OFF-BALANCE SHEET EXPOSURE	1,762	8,528	32,138	5,298	366,779
TOTAL EXPOSURE (A+B)	33,762	364,813	427,843	107,438	2,469,189

d) Provision ratio in loans to customers

2021		
IN HRK THOUSANDS	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
- STAGE 1	83.56	0.97
- STAGE 2	3.19	4.31
- STAGE 3	13.25	58.14
TOTAL	100.00	

2020		
IN HRK THOUSANDS	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
- STAGE 1	80.49	0.99
- STAGE 2	2.32	3.75
- STAGE 3	17.20	55.38
TOTAL	100.00	

38. RISK OF PRICE FLUCTUATIONS

Equity and debt financial instrument price risk represents the sensitivity of the portfolio of securities at fair value through profit or loss and securities at fair value through other comprehensive income to fluctuations in market prices, which affects the profit or loss as well as the revaluation reserve within the Bank's equity.

IN HRK THOUSANDS	ASSUMED PRICE CHANGE	IMPACT OF PRICE INCREASE ON PROFIT AND LOSS STATEMENT	IMPACT OF PRICE INCREASE ON REVALUATION RESERVES
AT 31 DECEMBER 2021	3%	5,140	23,393
AT 31 DECEMBER 2020	3%	5,506	21,725

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets to the Republic of Croatia, which is analysed as follows:

IN HRK THOUSANDS	2021	2020
GIRO ACCOUNT AT CNB	642,339	580,147
BONDS OF THE REPUBLIC OF CROATIA	369,162	436,101
OBLIGATORY RESERVES AND TREASURY NOTES WITH THE CROATIAN NATIONAL BANK	177,874	160,232
OTHER CASH RESERVE FUNDS	10,000	10,000
OTHER ASSETS	9,408	5,151
DEFERRED TAX ASSETS/LIABILITIES	4,269	3,544
CURRENT TAX ASSETS/LIABILITIES	1,936	2,299
DEPOSITS RECEIVED	(40)	(40)
OTHER LIABILITIES	(62)	(74)
CNB REPO LOAN AGREEMENTS	(313,679)	(312,315)
	901,207	885,045

The Bank's indirect exposure to the Republic of Croatia as at 31 December 2021 in respect of loans and other exposures is as follows:

IN HRK THOUSANDS	2021	2020
CUSTOMER LOANS GUARANTEED BY THE STATE	56,310	32,614
OTHER LOANS	50,941	30,220
BONDS OF LOCAL GOVERNMENT UNITS	2,500	-
RIGHT-OF-USE ASSETS	1,932	2,259
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	-	(1,569)
OTHER LIABILITIES	(2,154)	(2,861)
BORROWINGS FROM HBOR	(117,988)	(172,782)
DEPOSITS RECEIVED	(121,604)	(107,323)
	(130,063)	(219,442)

40. EVENTS AFTER THE BALANCE SHEET DATE

Geopolitical situation in Europe - War in Ukraine

Given the war situation in Ukraine since the end of February 2022, the Bank has implemented all sanctions in accordance with the decisions and recommendations of the competent authorities of the European Union and the Bank's Management Board has increased the level and frequency of monitoring and assessing possible impacts.

The Bank has analysed and assessed the risks to which it may be exposed due to the above situation and sanctions, and the Bank's portfolio has not identified clients with significant dependence on the Russian, Ukrainian or Belarusian markets. Accordingly, no direct increase in credit risk has been identified. Looking at the structure of exposures, the quality of clients and their risk profile, the Bank estimates that there is currently no increased risk of deterioration in the quality of the loan portfolio.

The bank holds 3 bonds of Russian issuers with a nominal value of USD 1 million and CHF 0.5 million in its securities portfolio. These bonds are classified in the portfolio held for cash flow collection and for sale and are valued at fair value. They are still actively traded and the Bank does not consider this investment significant for its own portfolio.

The Bank does not have an open position in the currencies of countries affected by war. Stability and liquidity reserves and the Bank's capital position are also at a high level and new developments have no material impact on liquidity and capital position.

Regarding IT risk, the Bank does not have direct business relations with countries affected by war conflicts and sanctions, and the Bank has strengthened security measures to prevent possible cyber attacks.

Taking into account all the above, the Bank's Management Board estimates that the new geopolitical situation has no material risks and no impact on the Bank's operations. The Bank actively assesses distortions in global commodity and financial markets and analyses potential risks that could materialize, including their impact on the Croatian banking system and the Bank's operations.

Issue of subordinated bonds

15 February 2022, the Bank subscribed for subordinated bonds that are included in supplementary capital. PDBA-O-312E subordinated bonds, ISIN: HRPDBAO312E3, were issued in book-entry form, for a total amount of the of EUR 6,765,005.00 in the denomination of EUR 1, with a fixed interest rate of 4.0% per annum and half-annual payment and a one-off principal maturity on 15 February 2031. Subordinated bonds were issued through a public offering, without the prospectus being published according with the Article 1 (4) (c) of Regulation (EU) 2017/1129 of the European Parliament and the Council held on 14 June 2017. On 18 March 2022, the Bank received approval from the CNB for the inclusion of subordinated bonds in supplementary capital, which will be included in the calculation of capital requirements on 31 March 2022.

Disputes against the Bank

On March 11, 2022 the Bank received the second-instance judgment of the High Commercial Court of the Republic of Croatia 78 Pž-4194/2021-3 in the case - plaintiff Dalekovod d.d. Zagreb v. Podravska banka, as defendants. The judgment changed the judgment of the Commercial Court in Zagreb number P-770/2016. from 12.07.2021. year in a way that it was finalized to reject the claim of Dalekovod d.d. to declare enforcement on claims inadmissible and at the same time rejected their request for recovery of HRK 53,993 thousand seized by the Bank within the disputed enforcement proceedings to settle the due claim against Dalekovod as a debtor and the Bank was awarded litigation costs in the amount of HRK 482,500.00.

41. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 19 March 2022 and were signed on its behalf by:

Goran Varat	Daniel Unger	Renata Vinković
President of the Management Board	Member of the Management Board	Member of the Management Board
		



ABOUT BANK

BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

Supervisory Board

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

Miljan Todorovic, Chairman
Sigilfredo Montinari, Deputy Chairman
Michele Cakcaterra Borri, Member
Maurizio Dallochio, Member
Filippo Disertori, Member
Antonio Moniaci, Member
Dario Montinari, Member
Dolly Predović, Member
Ezio Simonelli, Member

Management Board

Goran Varat, Chairman of the Board
Daniel Unger, Member of the Board
Renata Vinković, Member of the Board

Chief Executive Officer

Moreno Marson

Units



Internal Audit Unit – Krunoslav Vnučec
Risk Control Unit – Hrvoje Miloš
Compliance Unit – Mario Brajnić
Legal Affairs – Krunoslav Grošić
Administration and HR Management Unit – Božana Kovačević

Divisions

Financial Markets Division – Daniel Varga
Development and Investment Banking Sector – Maja Bešević Vlajo
Corporate Customers Division – Branko Faletar
Retail Customers Division – Dijana Vladislavić
Risk Management Division – Vedrana Cicvarić
Accounting Sector – Snježana Pobi
Operations & Support Division – Snježana Pobi
ICT Sector – Saša Lončarić



Legend

-  Commercial Centre
-  Branches

RETAIL CENTRES

Commercial Centre Zagreb

Zagreb, Green Gold – Ulica grada Vukovara 269f,
tel. 072 655 450, fax. 072 655 459

Zagreb, Trg Petra Preradovića 3,
tel. 072 655 400, fax. 072 655 409

Commercial Centre Koprivnica

Koprivnica, Opatička 1a,
tel. 072 655 000, fax. 072 655 239

Koprivnica, Trg Eugena Kumičića 11,
tel. 072 655 330, fax. 072 655 339

Koprivnica, Ivana Meštrovića bb,
tel. 072 655 340, fax. 072 655 349

Gola, Trg kardinala A. Stepinca 6b,
tel. 072 655 352, fax. 072 655 353

Đelekovec, P. Kvakana 2,
tel. 072 655 354, fax. 072 655 355

Legrad, Trg Svetog Trojstva 44,
tel. 072 655 356, fax. 072 655 357

Križevci, I. Z. Dijankovečkog 2,
tel. 072 655 360, fax. 072 655 369

Commercial Centre Bjelovar

Bjelovar, Trg Eugena Kvaternika 12,
tel. 072 655 800, fax. 072 655 809

Grubišno Polje, 77. samostalnog bataljuna ZNG 1,
tel. 072 655 820, fax. 072 655 829

Veliki Grđevac, Kralja Tomislava 26,
tel. 072 655 840, fax. 072 655 849

Đurđevac, Stjepana Radića 16,
tel. 072 655 370, fax. 072 655 379

Commercial Centre Požega

Požega, Republike Hrvatske 1b,
tel. 072 655 700, fax. 072 655 709

Pleternica, Ivana Šveara 4,
tel. 072 655 770, fax. 072 655 779

Kutjevo, Kralja Tomislava 2,
tel. 072 655 780, fax. 072 655 789

Osijek, Kapucinska 38,
tel. 072 655 790, fax. 072 655 799

Commercial Centre Rijeka

Rijeka, Ivana Zajca 18,
tel. 072 655 660, fax. 072 655 669

Commercial Centre Varaždin

Varaždin, Trg slobode 2,
tel. 072 655 600, fax. 072 655 609

Ludbreg, Petra Zrinskog 32,
tel. 072 655 620, fax. 072 655 629

Commercial Centre Split

Split, Ulica slobode 33,
tel. 072 655 630, fax. 072 655 639

Commercial Centre Zadar

Zadar, Stjepana Radića 2f,
tel. 072 655 650, fax. 072 655 659

Info centre 072 20 20 20
www.poba.hr
info@poba.hr



APPENDIX I
SUPPLEMENTARY REPORTS FOR THE
CROATIAN NATIONAL BANK

APPENDIX II
OTHER LEGAL AND REGULATORY
REQUIREMENTS

Pursuant to Article 19, paragraph 6 of the Accounting Act (Official Gazette 78/2015, 134/2015 and 120/2016) and Article 43, paragraph 2, item 9 of the Law on the Croatian National Bank (Official Gazette 75 / 2008 and 54/2013), the Croatian National Bank adopted the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/2018), The following tables present the financial statements in accordance with the aforementioned Decision.

BALANCE SHEET AT 31 DECEMBER 2021

UNCONSOLIDATED (IN HRK THOUSANDS)	AOP		
POSITION TITLE	TAG	PREVIOUS YEAR	CURRENT YEAR
ASSETS			
FUNDS. CENTRAL BANK MONETARY CLAIMS AND OTHER DEMAND DEPOSITS (AOP 002 TO 004)	001	768,207	744,089
CASH IN HAND	002	46,503	48,853
MONETARY CLAIMS ON CENTRAL BANKS	003	590,147	652,339
OTHER DEMAND DEPOSITS	004	131,557	42,897
FINANCIAL ASSETS HELD FOR TRADING (AOP 006 TO 009)	005	0	0
DERIVATIVES	006	0	0
EQUITY INSTRUMENTS	007	0	0
DEBT SECURITIES	008	0	0
LOANS AND ADVANCES	009	0	0
NON-TRADABLE FINANCIAL ASSETS THAT ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 011 TO 013)	010	183,533	171,325
EQUITY INSTRUMENTS	011	183,533	171,325
DEBT SECURITIES	012	0	0
LOANS AND ADVANCES	013	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 015 + 016)	014	0	0
DEBT SECURITIES	015	0	0
LOANS AND ADVANCES	016	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AOP 018 TO 020)	017	714,122	769,738
EQUITY INSTRUMENTS	018	36,779	38,767
DEBT SECURITIES	019	677,343	730,971
LOANS AND ADVANCES	020	0	0
FINANCIAL ASSETS AT AMORTIZED COST (AOP 022+023)	021	2,101,775	2,349,630
DEBT SECURITIES	022	23,754	23,936
LOANS AND ADVANCES	023	2,078,021	2,325,694
DERIVATIVES - HEDGE ACCOUNTING	024	0	0
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK	025	0	0
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	026	0	0
TANGIBLE ASSETS	027	105,123	95,057
INTANGIBLE ASSETS	028	42,624	49,017
TAX ASSETS	029	8,101	6,525
OTHER ASSETS	030	1,980	1,955
NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	031	11,967	12,079
TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021+ 024 TO 031)	032	3,937,432	4,199,415

POSITION TITLE	AOP TAG	PREVIOUS YEAR	CURRENT YEAR
LIABILITIES			
FINANCIAL LIABILITIES HELD FOR TRADING (AOP 034 TO 038)	033	0	0
DERIVATIVES	034	0	0
SHORT POSITIONS	035	0	0
DEPOSITS	036	0	0
DEBT SECURITIES ISSUED	037	0	0
OTHER FINANCIAL LIABILITIES	038	0	0
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 040 TO 042)	039	0	0
DEPOSITS	040	0	0
DEBT SECURITIES ISSUED	041	0	0
OTHER FINANCIAL LIABILITIES	042	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST (AOP 044 TO 046)	043	3,413,656	3,656,709
DEPOSITS	044	3,297,871	3,568,945
DEBT SECURITIES ISSUED	045	98,564	71,206
OTHER FINANCIAL LIABILITIES	046	17,221	16,558
DERIVATIVES - HEDGE ACCOUNTING	047	0	0
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS WHEN HEDGING A PORTFOLIO AGAINST INTEREST RATE RISK	048	0	0
RESERVATIONS	049	5,350	14,795
TAX LIABILITIES	050	688	506
SHARE CAPITAL RETURNED ON DEMAND	051	0	0
OTHER LIABILITIES	052	36,223	30,822
LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	053	0	0
TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 TO 053)	054	3,455,917	3,702,832
CAPITAL			
SHARE CAPITAL	055	267,500	267,500
STOCK PREMIUM	056	3,015	3,015
EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY	057	0	0
OTHER EQUITY INSTRUMENTS	058	0	0
ACCUMULATED OTHER COMPREHENSIVE INCOME	059	-878	-2,303
RETAINED PROFIT	060	6,102	7,361
REVALUATION RESERVES	061	0	0
OTHER RESERVES	062	195,141	206,960
TREASURY STOCKS	063	-1,184	-1,184
PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	064	11,819	15,234
DIVIDENDS DURING THE BUSINESS YEAR	065	0	0
MINORITY INTERESTS (NON-CONTROLLING INTERESTS)	066	0	0
TOTAL CAPITAL(AOP 055 TO 066)	067	481,515	496,583
TOTAL LIABILITIES AND CAPITAL (AOP 054+067)	068	3,937,432	4,199,415

PROFIT AND LOSS STATEMENT FOR THE PERIOD FROM 1 JANUARY 2021 TO 31 DECEMBER 2021

UNCONSOLIDATED (IN HRK THOUSANDS) POSITION TITLE	AOP TAG	PREVIOUS YEAR	CURRENT YEAR
INTEREST INCOME	001	100,050	100,441
(INTEREST EXPENSES)	002	13,518	11,062
(EXPENDITURE ON SHARE CAPITAL RETURNED ON REQUEST)	003	0	0
DIVIDEND INCOME	004	644	957
FEE AND COMMISSION INCOME	005	38,320	44,264
(FEE AND COMMISSION EXPENSES)	006	15,228	18,236
GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	007	9,981	3,561
GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING, NET	008	5,136	5,721
GAINS OR LOSSES ON NON-TRADABLE FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	009	4,813	270
GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	010	0	0
GAINS OR LOSSES ON HEDGE ACCOUNTING, NET	011	0	0
FOREIGN EXCHANGE DIFFERENCES (PROFIT OR LOSS), NET	012	158	917
GAINS OR (-) LOSSES ON DERECOGNITION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES, NET	013		0
GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	014	(518)	(569)
OTHER OPERATING INCOME	015	4,807	6,055
(OTHER OPERATING EXPENSES)	016	6,653	6,546
TOTAL INCOME FROM OPERATIONS, NET (AOP 001 – 002 – 003 + 004 + 005 – 006 + FROM 007 TO 014 – 015)	017	127,992	125,773
(ADMINISTRATIVE EXPENDITURE)	018	76,678	76,368
(CASH CONTRIBUTIONS TO RESOLUTION COMMITTEES AND DEPOSIT INSURANCE SCHEMES)	019	6,220	113
AMORTIZATION	020	9,483	11,160
GAINS OR LOSSES ON CHANGES, NET	021	0	0
RESERVATIONS OR CANCELLATIONS	022	(154)	9,433
IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	023	19,890	9,480
IMPAIRMENT OR ELIMINATION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	024	0	0
IMPAIRMENT OR ELIMINATION OF IMPAIRMENT OF NON-FINANCIAL ASSETS	025	0	0
NEGATIVE GOODWILL RECOGNIZED IN PROFIT OR LOSS	026	0	0
SHARE OF PROFIT OR LOSS FROM INVESTING IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CALCULATED USING THE EQUITY METHOD	027	0	0
PROFIT OR LOSS ON NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE THAT DOES NOT QUALIFY AS A GOING CONCERN	028	(717)	(334)
PROFIT OR LOSS BEFORE TAX FROM OPERATING OPERATIONS (AOP 017 - FROM 018 TO 020 + 021 - FROM 022 TO 025 + FROM 026 TO 028)	029	15,158	18,885
TAX EXPENSE OR INCOME RELATED TO THE PROFIT OR LOSS FROM CONTINUING OPERATIONS	030	3,224	4,282
PROFIT OR LOSS AFTER TAX FROM OPERATING OPERATIONS THAT WILL CONTINUE(AOP 029 - 030)	031	11,934	14,603
PROFIT OR LOSS AFTER TAX FROM OPERATIONS THAT WILL NOT CONTINUE (AOP 033 - 034)	032	(115)	631
PRE-TAX PROFIT OR LOSS FROM OPERATIONS THAT WILL NOT CONTINUE	033	(115)	631
TAX OR BUSINESS-RELATED EXPENSES THAT WILL NOT CONTINUE	034	0	0
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 031 + 032; 036 +037)	035	11,819	15,234
BELONGS TO MINORITY INTEREST (NON-CONTROLLING INTERESTS)	036	0	0
IT BELONGS TO THE OWNERS OF THE PARENT COMPANY	037	11,819	15,234

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2021 TO 31 DECEMBER 2021

UNCONSOLIDATED (IN HRK THOUSANDS) POSITION TITLE	AOP TAG	PREVIOUS YEAR	CURRENT YEAR
OTHER COMPREHENSIVE INCOME REPORT			
PROFIT OR LOSS FOR THE CURRENT YEAR	038	11,819	15,234
OTHER COMPREHENSIVE INCOME (AOP 040 + 052)	039	(5,337)	(166)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP FROM 041 TO 047 + 050 +051)	040	(1,629)	4,476
TANGIBLE ASSETS	041	0	0
INTANGIBLE ASSETS	042	0	0
ACTUARIAL GAINS OR LOSSES ON EMPLOYER-SPONSORED RETIREMENT PLANS	043	0	0
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	044	0	0
SHARES OF OTHER RECOGNIZED INCOME AND EXPENSE FROM ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	045	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	046	(2,160)	5,182
GAINS OR LOSSES ON ACCOUNTING FOR THE PROTECTION OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER	047	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGED ITEM)	048	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGING INSTRUMENT)	049	0	0
CHANGES IN THE FAIR VALUE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ATTRIBUTABLE TO CHANGES IN CREDIT RISK	050	0	0
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED	051	531	(706)
ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS (AOP FROM 053 TO 060)	052	(3,708)	(4,642)
PROTECTION OF NET INVESTMENT IN FOREIGN OPERATIONS (EFFECTIVE SHARE)	053	0	0
FOREIGN CURRENCY TRANSLATION	054	0	0
CASH FLOW HEDGES (EFFECTIVE SHARE)	055	0	0
RISK PROTECTION INSTRUMENTS (ELEMENTS NOT SPECIFIED)	056	0	0
DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	057	(4,522)	(5,661)
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	058	0	0
SHARE OF OTHER RECOGNIZED INCOME AND EXPENSE FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	059	0	0
INCOME TAX RELATING TO ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS	060	814	1,019
TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR (AOP 038 +039;062+063)	061	6,482	15,068
BELONGS TO MINORITY INTEREST (NON-CONTROLLING INTEREST)	062	0	0
IT BELONGS TO THE OWNERS OF THE PARENT COMPANY	063	6,482	15,068

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2021 TO 31 DECEMBER 2021

UNCONSOLIDATED (IN HRK THOUSANDS) POSITION TITLE	AOP TAG	PREVIOUS YEAR	CURRENT YEAR
BUSINESS ACTIVITIES ACCORDING TO THE DIRECT METHOD			
CHARGED INTEREST AND SIMILAR RECEIPTS	001	0	0
CHARGED FEES AND COMMISSIONS	002	0	0
(PAID INTEREST AND SIMILAR EXPENSES)	003	0	0
(PAID FEES AND COMMISSIONS)	004	0	0
(PAID OPERATING EXPENSES)	005	0	0
NET GAINS / LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	006	0	0
OTHER RECEIPTS	007	0	0
(OTHER EXPENSES)	008	0	0
BUSINESS ACTIVITIES ACCORDING TO THE INDIRECT METHOD			
PROFIT / LOSS BEFORE TAX	009	15,043	19,516
RECONCILIATION:		0	0
IMPAIRMENT AND PROVISIONS	010	20,970	19,817
AMORTIZATION	011	9,483	11,160
NET UNREALIZED GAINS / LOSSES ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH RDG	012	(1,288)	1,345
PROFIT / LOSS FROM SALE OF TANGIBLE ASSETS	013	(26)	(38)
OTHER NON-MONETARY ITEMS	014	(213)	(771)
CHANGES IN ASSETS AND LIABILITIES FROM OPERATING ACTIVITIES			
CNB FUNDS	015	38,667	(17,648)
DEPOSITS WITH FINANCIAL INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	016	(3,467)	3,546
LOANS AND ADVANCES TO OTHER CUSTOMERS	017	(59,363)	(338,830)
SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	018	(45,804)	(64,398)
SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	019	0	0
SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT ACTIVELY TRADED AND ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	020	0	0
SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS	021	(44,392)	10,863
SECURITIES AND OTHER FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST	022	42,804	(1,221)
OTHER ASSETS FROM BUSINESS ACTIVITIES	023	(2,582)	739
DEPOSITS FROM FINANCIAL INSTITUTIONS	024	20,289	(12,282)
OTHER CLIENTS TRANSACTION ACCOUNTS	025	235,106	453,598
SAVINGS DEPOSITS OF OTHER CLIENTS	026	29,216	32,141
TIME DEPOSITS OF OTHER CUSTOMERS	027	(198,154)	(126,940)
DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	028	0	0
OTHER LIABILITIES	029	(10,232)	(7,748)
UNPAID INTEREST FROM BUSINESS ACTIVITIES	030	101,824	101,513
DIVIDENDS RECEIVED FROM OPERATING ACTIVITIES	031	644	957
INTEREST PAID FROM BUSINESS ACTIVITIES	032	(5,802)	(4,858)
(PAID INCOME TAXES)	033	(8,869)	(5,261)
NET CASH FLOWS FROM OPERATING ACTIVITIES (AOP 001 TO 033)	034	133,854	75,200

UNCONSOLIDATED (IN HRK THOUSANDS) POSITION TITLE	AOP TAG	PREVIOUS YEAR	CURRENT YEAR
INVESTMENT ACTIVITIES			
RECEIPTS FROM SALE / PAYMENT FOR PURCHASE OF TANGIBLE AND INTANGIBLE ASSETS	035	(11,015)	(3,983)
RECEIPTS FROM THE SALE / PAYMENT FOR THE PURCHASE OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	036	0	0
RECEIPTS FROM COLLECTION / PAYMENT FOR THE PURCHASE OF SECURITIES AND OTHER HELD-TO-MATURITY FINANCIAL INSTRUMENTS	037	0	0
DIVIDENDS RECEIVED FROM INVESTING ACTIVITIES	038	0	0
OTHER RECEIPTS / PAYMENTS FROM INVESTING ACTIVITIES	039	(3,746)	325
NET CASH FLOWS FROM INVESTMENT ACTIVITIES (FROM 035 TO 039)	040	(14,761)	(3,658)
FINANCIAL ACTIVITIES			
NET INCREASE / (DECREASE) IN LOANS RECEIVED FROM FINANCIAL ACTIVITIES	041	242,401	(70,931)
NET INCREASE / (DECREASE) IN DEBT SECURITIES ISSUED	042	1,228	(27,358)
NET INCREASE / (DECREASE) IN SUPPLEMENTARY CAPITAL INSTRUMENTS	043	0	0
INCREASE IN SHARE CAPITAL	044	0	0
(DIVIDEND PAID)	045	0	0
OTHER RECEIPTS / (PAYMENTS) FROM FINANCIAL ACTIVITIES	046	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES (FROM 041 TO 046)	047	243,629	(98,289)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (034 + 040 + 047)	048	362,722	(26,747)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	049	408,473	771,195
THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	050	0	0
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (048 + 049 + 050)	051	771,195	744,448

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2021 TO 31 DECEMBER 2021

DISTRIBUTABLE TO HOLDERS OF PARENT CAPITAL						
UNCONSOLIDATED (IN HRK THOUSANDS) POSITION DESCRIPTION	AOP TAG	CAPITAL	STOCK PREMIUM	EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY	OTHER EQUITY SHARES	ACCUMULATED OTHER COMPREHENSIVE INCOME
	2	3	4	5	6	7
INITIAL STATE (BEFORE REMODELLING)	001	267,500	3,015	0	0	(878)
THE EFFECT OF BUG FIXES	002	0	0	0	0	0
THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES	003	0	0	0	0	0
INITIAL STATUS (CURRENT PERIOD) (AOP 01 TO 03)	004	267,500	3,015	0	0	(878)
ISSUANCE OF ORDINARY SHARES	005	0	0	0	0	0
ISSUANCE OF PREFERRED SHARES	006	0	0	0	0	0
ISSUANCE OF OTHER EQUITY INSTRUMENTS	007	0	0	0	0	0
EXECUTION OR EXPIRATION OF OTHER ISSUED EQUITY INSTRUMENTS	008	0	0	0	0	0
CONVERTING DEBT INTO EQUITY INSTRUMENTS	009	0	0	0	0	0
REDUCTION OF CAPITAL	010	0	0	0	0	0
DIVIDENDS	011	0	0	0	0	0
PURCHASE OF TREASURY SHARES	012	0	0	0	0	0
SALE OR CANCELLATION OF TREASURY SHARES	013	0	0	0	0	0
RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM EQUITY INSTRUMENTS INTO LIABILITIES	014	0	0	0	0	0
RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM LIABILITIES INTO EQUITY INSTRUMENTS	015	0	0	0	0	0
TRANSFERS BETWEEN COMPONENTS OF EQUITIES	016	0	0	0	0	0
INCREASE OR DECREASE IN EQUITY INSTRUMENTS AS A RESULT OF BUSINESS COMBINATIONS	017	0	0	0	0	0
STOCK BASED PAYMENTS	018	0	0	0	0	0
OTHER INCREASE OR DECREASE IN EQUITY INSTRUMENTS	019	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR	020	0	0	0	0	(1,425)
FINAL (CURRENT PERIOD) (AOP 04-20)	021	267,500	3,015	0	0	(2,303)

DISTRIBUTABLE TO HOLDERS OF PARENT CAPITAL						MINORITY SHARE		
RETAINED INCOME	REVALUATION RESERVES	OTHER RESERVES	TREASURY STOCKS	PROFIT / LOSS ATTRIBUTABLE TO OWNERS OF	DIVIDENDS DURING THE BUSINESS YEAR	ACCUMULATED OTHER	OTHER ITEMS	TOTAL
				THE PARENT COMPANY		COMPREHENSIVE INCOME		
8	9	10	11	12	13	14	15	16
6,102	0	195,141	(1,184)	11,819	0	0	0	481,515
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
6,102	0	195,141	(1,184)	11,819	0	0	0	481,515
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	11,819	0	(11,819)	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
1,259	0	0	0	15,234	0	0	0	15,068
7,361	0	206,960	(1,184)	15,234	0	0	0	496,583

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2020 TO 31 DECEMBER 2020

UNCONSOLIDATED (IN HRK THOUSANDS) POSITION DESCRIPTION	AOP TAG	DISTRIBUTABLE TO HOLDERS OF PARENT CAPITAL				
		CAPITAL	STOCK PREMIUM	EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY	OTHER EQUITY SHARES	ACCUMULATED OTHER COMPREHENSIVE INCOME
2	3	4	5	6	7	
INITIAL STATE (BEFORE REMODELLING)	001	267,500	3,015	0	0	5,250
THE EFFECT OF BUG FIXES	002	0	0	0	0	0
THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES	003	0	0	0	0	0
INITIAL STATUS (CURRENT PERIOD) (AOP 01 TO 03)	004	267,500	3,015	0	0	5,250
ISSUANCE OF ORDINARY SHARES	005	0	0	0	0	0
ISSUANCE OF PREFERRED SHARES	006	0	0	0	0	0
ISSUANCE OF OTHER EQUITY INSTRUMENTS	007	0	0	0	0	0
EXECUTION OR EXPIRATION OF OTHER ISSUED EQUITY INSTRUMENTS	008	0	0	0	0	0
CONVERTING DEBT INTO EQUITY INSTRUMENTS	009	0	0	0	0	0
REDUCTION OF CAPITAL	010	0	0	0	0	0
DIVIDENDS	011	0	0	0	0	0
PURCHASE OF TREASURY SHARES	012	0	0	0	0	0
SALE OR CANCELLATION OF TREASURY SHARES	013	0	0	0	0	0
RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM EQUITY INSTRUMENTS INTO LIABILITIES	014	0	0	0	0	0
RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM LIABILITIES INTO EQUITY INSTRUMENTS	015	0	0	0	0	0
TRANSFERS BETWEEN COMPONENTS OF EQUITIES	016	0	0	0	0	0
INCREASE OR DECREASE IN EQUITY INSTRUMENTS AS A RESULT OF BUSINESS COMBINATIONS	017	0	0	0	0	0
STOCK BASED PAYMENTS	018	0	0	0	0	0
OTHER INCREASE OR DECREASE IN EQUITY INSTRUMENTS	019	0	0	0	0	(791)
TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR	020	0	0	0	0	(5,337)
FINAL (CURRENT PERIOD) (AOP 04-20)	021	267,500	3,015	0	0	(878)

DISTRIBUTABLE TO HOLDERS OF PARENT CAPITAL					MINORITY SHARE			
RETAINED INCOME	REVALUATION RESERVES	OTHER RESERVES	TREASURY STOCKS	PROFIT / LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	DIVIDENDS DURING THE BUSINESS YEAR	ACCUMULATED OTHER COMPREHENSIVE INCOME	OTHER ITEMS	TOTAL
8	9	10	11	12	13	14	15	16
5,310	0	174,693	(1,388)	21,346	0	0	0	475,726
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
5,310	0	174,693	(1,388)	21,346	0	0	0	475,726
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	(1,843)	0	0	0	0	(1,843)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	21,346	0	(21,346)	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
792	0	(898)	2,047	0	0	0	0	1,150
0	0	0	0	11,819	0	0	0	6,482
6,102	0	195,141	(1,184)	11,819	0	0	0	481,515

Since the information included in the financial statements prepared in accordance with the decision of the Croatian National Bank (“CNB”) diverge from those in the financial statements prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia, the tables below show comparative information.

COMPARATIVE BALANCE SHEET AS AT DECEMBER 31, 2021

POSITION TITLE	AOP	CNB DECISION	ANNUAL REPORT	DIFFERENCE
ASSETS				
FUNDS. CENTRAL BANK MONETARY CLAIMS AND OTHER DEMAND DEPOSITS (AOP 002 TO 004)	001	744,089	921,988	(177,899)
CASH IN HAND	002	48,853	48,878	(25)
MONETARY CLAIMS ON CENTRAL BANKS	003	652,339	830,213	(177,874)
OTHER DEMAND DEPOSITS	004	42,897	42,897	0
FINANCIAL ASSETS HELD FOR TRADING (AOP 006 TO 009)	005	0	0	0
DERIVATIVES	006	0	0	0
EQUITY INSTRUMENTS	007	0	0	0
DEBT SECURITIES	008	0	0	0
LOANS AND ADVANCES	009	0	0	0
NON-TRADABLE FINANCIAL ASSETS THAT ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 011 TO 013)	010	171,325	171,325	0
EQUITY INSTRUMENTS	011	171,325	171,325	0
DEBT SECURITIES	012	0	0	0
LOANS AND ADVANCES	013	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 015 + 016)	014	0	0	0
DEBT SECURITIES	015	0	0	0
LOANS AND ADVANCES	016	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AOP 018 TO 020)	017	769,738	769,738	0
EQUITY INSTRUMENTS	018	38,767	38,767	0
DEBT SECURITIES	019	730,971	730,971	0
LOANS AND ADVANCES	020	0	0	0
FINANCIAL ASSETS AT AMORTIZED COST (AOP 022+023)	021	2,349,630	2,168,225	181,405
DEBT SECURITIES	022	23,936	23,936	0
LOANS AND ADVANCES	023	2,325,694	2,144,289	181,405
DERIVATIVES - HEDGE ACCOUNTING	024	0	0	0
CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK	025	0	0	0
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	026	0	0	0
TANGIBLE ASSETS	027	95,057	95,057	0
INTANGIBLE ASSETS	028	49,017	49,017	0
TAX ASSETS	029	6,525	4,269	2,256
OTHER ASSETS	030	1,955	19,534	(17,579)
NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	031	12,079	262	11,817
TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 TO 031)	032	4,199,415	4,199,415	0

POSITION TITLE	AOP	CNB DECISION	ANNUAL REPORT	DIFFERENCE
LIABILITIES				
FINANCIAL LIABILITIES HELD FOR TRADING (AOP 034 TO 038)	033	0	0	0
DERIVATIVES	034	0	0	0
SHORT POSITIONS	035	0	0	0
DEPOSITS	036	0	0	0
DEBT SECURITIES ISSUED	037	0	0	0
OTHER FINANCIAL LIABILITIES	038	0	0	0
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 040 TO 042)	039	0	0	0
DEPOSITS	040	0	0	0
DEBT SECURITIES ISSUED	041	0	0	0
OTHER FINANCIAL LIABILITIES	042	0	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST (AOP 044 TO 046)	043	3,656,709	3,640,151	16,558
DEPOSITS	044	3,568,945	3,568,945	0
DEBT SECURITIES ISSUED	045	71,206	71,206	0
OTHER FINANCIAL LIABILITIES	046	16,558	0	16,558
DERIVATIVES - HEDGE ACCOUNTING	047	0	0	0
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS WHENHEDGING A PORTFOLIO AGAINST INTEREST RATE RISK	048	0	0	0
RESERVATIONS	049	14,795	14,795	0
TAX LIABILITIES	050	506	0	506
SHARE CAPITAL RETURNED ON DEMAND	051	0	0	0
OTHER LIABILITIES	052	30,822	47,886	(17,064)
LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	053	0		0
TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 TO 053)	054	3,702,832	3,702,832	0
CAPITAL				
SHARE CAPITAL	055	267,500	267,500	0
STOCK PREMIUM	056	3,015	3,015	0
EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY	057	0	0	0
OTHER EQUITY INSTRUMENTS	058	0	0	0
ACCUMULATED OTHER COMPREHENSIVE INCOME	059	(2,303)	0	(2,303)
RETAINED EARNINGS	060	7,361	7,361	0
REVALUATION RESERVES	061	0	0	0
OTHER RESERVES	062	206,960	204,657	2,303
TREASURY STOCKS	063	(1,184)	(1,184)	0
PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	064	15,234	15,234	0
DIVIDENDS DURING THE BUSINESS YEAR	065	0	0	0
MINORITY INTERESTS (NON-CONTROLLING INTERESTS)	066	0	0	0
TOTAL CAPITAL (AOP 055 TO 066)	067	496,583	496,583	0
TOTAL LIABILITIES AND CAPITAL (AOP 054+067)	068	4,199,415	4,199,415	0

COMPARATIVE BALANCE SHEET AS AT DECEMBER 31, 2020

POSITION TITLE	AOP	CNB DECISION	ANNUAL REPORT	DIFFERENCE
ASSETS				
FUNDS. CENTRAL BANK MONETARY CLAIMS AND OTHER DEMAND DEPOSITS (AOP 002 TO 004)	001	768,207	930,828	(162,621)
CASH IN HAND	002	46,503	46,507	(4)
MONETARY CLAIMS ON CENTRAL BANKS	003	590,147	750,379	(160,232)
OTHER DEMAND DEPOSITS	004	131,557	133,942	(2,385)
FINANCIAL ASSETS HELD FOR TRADING (AOP 006 TO 009)	005	0	0	0
DERIVATIVES	006	0	0	0
EQUITY INSTRUMENTS	007	0	0	0
DEBT SECURITIES	008	0	0	0
LOANS AND ADVANCES	009	0	0	0
NON-TRADABLE FINANCIAL ASSETS THAT ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 011 TO 013)	010	183,533	183,533	0
EQUITY INSTRUMENTS	011	183,533	183,533	0
DEBT SECURITIES	012	0	0	0
LOANS AND ADVANCES	013	0	0	0
4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 015 + 016)	014	0	0	0
DEBT SECURITIES	015	0	0	0
LOANS AND ADVANCES	016	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AOP 018 TO 020)	017	714,122	714,122	0
EQUITY INSTRUMENTS	018	36,779	36,779	0
DEBT SECURITIES	019	677,343	677,343	0
LOANS AND ADVANCES	020	0	0	0
FINANCIAL ASSETS AT AMORTIZED COST (AOP 022+023)	021	2,101,775	1,930,653	171,122
DEBT SECURITIES	022	23,754	23,754	0
LOANS AND ADVANCES	023	2,078,021	1,906,899	171,122
DERIVATIVES - HEDGE ACCOUNTING	024	0	0	0
CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK	025	0	0	0
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	026	0	0	0
TANGIBLE ASSETS	027	105,123	105,124	(1)
INTANGIBLE ASSETS	028	42,624	42,623	1
TAX ASSETS	029	8,101	5,151	2,950
OTHER ASSETS	030	1,980	24,400	(22,420)
NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	031	11,967	998	10,969
TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 TO 031)	032	3,937,432	3,937,432	0

POSITION TITLE	AOP	CNB DECISION	ANNUAL REPORT	DIFFERENCE
LIABILITIES				
FINANCIAL LIABILITIES HELD FOR TRADING (AOP 034 TO 038)	033	0	0	0
DERIVATIVES	034	0	0	0
SHORT POSITIONS	035	0	0	0
DEPOSITS	036	0	0	0
DEBT SECURITIES ISSUED	037	0	0	0
OTHER FINANCIAL LIABILITIES	038	0	0	0
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 040 TO 042)	039	0	0	0
DEPOSITS	040	0	0	0
DEBT SECURITIES ISSUED	041	0	0	0
OTHER FINANCIAL LIABILITIES	042	0	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST (AOP 044 TO 046)	043	3,413,656	3,396,434	17,222
DEPOSITS	044	3,297,871	3,297,870	1
DEBT SECURITIES ISSUED	045	98,564	98,564	0
OTHER FINANCIAL LIABILITIES	046	17,221	0	17,221
DERIVATIVES - HEDGE ACCOUNTING	047	0	0	0
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS WHEN HEDGING A PORTFOLIO AGAINST INTEREST RATE RISK	048	0	0	0
RESERVATIONS	049	5,350	5,350	0
TAX LIABILITIES	050	688	0	688
SHARE CAPITAL RETURNED ON DEMAND	051	0	0	0
OTHER LIABILITIES	052	36,223	54,133	(17,910)
LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	053	0		0
TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 TO 053)	054	3,455,917	3,455,917	0
CAPITAL				
SHARE CAPITAL	055	267,500	267,500	0
STOCK PREMIUM	056	3,015	3,015	0
EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY	057	0	0	0
OTHER EQUITY INSTRUMENTS	058	0	0	0
ACCUMULATED OTHER COMPREHENSIVE INCOME	059	(878)	0	(878)
RETAINED EARNINGS	060	6,102	6,102	0
REVALUATION RESERVES	061	0	0	0
OTHER RESERVES	062	195,141	194,263	878
TREASURY STOCKS	063	(1,184)	(1,184)	0
PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	064	11,819	11,819	0
DIVIDENDS DURING THE BUSINESS YEAR	065	0	0	0
MINORITY INTERESTS (NON-CONTROLLING INTERESTS)	066	0	0	0
TOTAL CAPITAL (AOP 055 TO 066)	067	481,515	481,515	0
TOTAL LIABILITIES AND CAPITAL (AOP 054+067)	068	3,937,432	3,937,432	0

Assets

The differences in the Bank's balance sheet items published in the annual financial statements relative to the balance sheet drawn up in accordance with the structure and content prescribed by the CNB's decision relate to the following positions and reclassifications:

The difference in the position Cash on hand relates to receivables for checks sent abroad to the amount of HRK 25 thousand (2020: HRK 4 thousands) which are included in the item Other assets under the CNB Decision.

The difference in the amount of HRK 177,874 thousand (2020: HRK 160,232 thousands) relates to the allocated reserve requirements, which are held in a separate position within the Annual Report as funds held at the Croatian National Bank, and according to the CNB Decision these receivables are included in the item Loans and advances at amortized cost.

The difference in the item Other demand deposits at 31 December 2020 in the amount of HRK 2,385 thousand relates to a deposit with a financial institution that, according to the CNB Decision, is included in the item Loans and advances at amortized cost. As of December 31, 2021, there is no difference in this position.

The difference within Loans and advances at amortized cost in the amount of HRK 6,012 thousand relates to reverse repurchase loans with financial companies (2020: HRK 1,390 thousand relates to short-term deposits with financial institutions) which are included in the Loans and advances item under the CNB Decision, and in the Annual Report the concerned deposits are included in the item Placements with other banks.

The difference in the amount of HRK 9,542 thousand (2020: HRK 8,506 thousand) relates to receivables on fees which are presented in the item Other Assets in the Annual Report, and according to the CNB Decision are shown in the item Loans and advances at amortized cost.

According to the CNB Decision, tangible assets include investments in property, plant and equipment (IAS 16) in the amount of HRK 46,070 thousand (2020: HRK 48,981 thousand), right-of-use assets (IFRS 16) in the amount of HRK 13,809 thousand (2020: HRK 14,895 thousand) and investments in property carried under IAS 40 in the amount of HRK 35,178 thousand (2020: HRK 41,247 thousand), while in the Annual Report these investments are included in separate items of property: Tangible assets (for investments under IAS 16), Right-of-use assets (for assets under IFRS 16) and Investments in property (for investments under IAS 40). Investments for the purpose of improving tangible assets under operating leases are disclosed under the CNB Decision under the heading Intangible assets, while in the Annual Report those are included in the item Tangible assets in the amount of HRK 1 thousand as at 31 December 2020 and as at 31 December In 2021, the Bank has no such investments.

The difference relates to current tax receivables in the amount of HRK 2,256 thousand (2020: HRK 2,950 thousand), which are presented in the item Other assets in the Annual Report.

The difference refers to the reclassification of acquired assets in exchange for uncollected receivables (which is not kept under IFRS 5 or IAS 40) in the amount of HRK 11,818 thousand (2020: HRK 10,970 thousand) and is included in Other Assets in the Annual Report, while included in the position of Assets and disposal groups classified as held for sale under the CNB Decision.

Liabilities and equity

According to the CNB's Decision, Deposits at amortized cost include all deposits and loans received from customers in the amount of HRK 3,568,945 thousand (2020: HRK 3,297,871 thousand), while in the Annual Report these items are presented in separate positions: deposits in the item Bank liabilities in the amount of HRK 15,917 thousand (2020: HRK 28,203 thousand) as well as in the item Loans to customers in the amount of HRK 3,121,361 thousand (2020: HRK 2,767,069 thousand) and loans received in the item Other borrowed funds in the amount of HRK 431,667 thousand (2020: HRK 502,598 thousand).

The difference in the item Other financial liabilities at amortized cost in the total amount of HRK 16,558 thousand (2020: HRK 17,221 thousand) refers to payables related to right-of-use assets in the amount of HRK 14,366 thousand (2020: HRK 15,211 thousand), fees payables in the amount of HRK 683 thousand (2020: HRK 467 thousand), liabilities for unpaid dividends in the amount of HRK 74 thousand (2020: HRK 76 thousand) and other liabilities in the amount of HRK 1,435 thousand (2020: HRK 1,468 thousand). These liabilities are included in the Other liabilities item in the Annual Report.

The difference in the item Tax liabilities in the amount of HRK 506 thousand (2020: HRK 688 thousand) relates to the reclassification in the annual report in which these liabilities are included in the item Other liabilities.

According to the CNB Decision, accumulated other comprehensive income in the amount of HRK -2,303 thousand (2020: HRK -878 thousand) is presented in a separate item within Capital, while in the annual report this amount is included in the item Other reserves.

COMPARATIVE VIEW OF THE PROFIT AND LOSS STATEMENT AND THE STATEMENT OF OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2021

POSITION TITLE	AOP TAG	CNB DECISION	ANNUAL REPORT	DIFFERENCE
INTEREST INCOME	001	100,441	100,441	0
(INTEREST EXPENSES)	002	11,062	11,062	0
(EXPENDITURE ON SHARE CAPITAL RETURNED ON REQUEST)	003	0	0	0
DIVIDEND INCOME	004	957	0	957
FEE AND COMMISSION INCOME	005	44,264	44,264	0
(FEE AND COMMISSION EXPENSES)	006	18,236	18,236	0
GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	007	3,561	0	3,561
GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING, NET	008	5,721	0	5,721
GAINS OR LOSSES ON NON-TRADABLE FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	009	270	0	270
GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	010	0	0	0
GAINS OR LOSSES ON HEDGE ACCOUNTING, NET	011	0	0	0
FOREIGN EXCHANGE DIFFERENCES (PROFIT OR LOSS), NET	012	917	0	917
GAINS OR (-) LOSSES ON DERECOGNITION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES, NET	013	0		
GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	014	(569)	0	(569)
OTHER OPERATING INCOME	015	6,055	17,838	(11,783)
(OTHER OPERATING EXPENSES)	016	6,546	0	6,546
TOTAL INCOME FROM OPERATIONS, NET (AOP 001 – 002 – 003 + 004 + 005 – 006 + FROM 007 TO 014 – 015)	017	125,773	133,245	(7,472)
(ADMINISTRATIVE EXPENDITURE)	018	76,368	82,739	(6,371)
(CASH CONTRIBUTIONS TO RESOLUTION COMMITTEES AND DEPOSIT INSURANCE SCHEMES)	019	113	0	113
AMORTIZATION	020	11,160	11,160	0
GAINS OR LOSSES ON CHANGES, NET	021	0	0	0
RESERVATIONS OR CANCELLATIONS	022	9,433	0	9,433
IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	023	9,480	19,830	(10,350)
IMPAIRMENT OR ELIMINATION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	024	0	0	0
IMPAIRMENT OR ELIMINATION OF IMPAIRMENT OF NON-FINANCIAL ASSETS	025	0	0	0
NEGATIVE GOODWILL RECOGNIZED IN PROFIT OR LOSS	026	0	0	0

SHARE OF PROFIT OR LOSS FROM INVESTING IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CALCULATED USING THE EQUITY METHOD	027	0	0	0
PROFIT OR LOSS ON NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE THAT DOES NOT QUALIFY AS A GOING CONCERN	028	(334)	0	(334)
PROFIT OR LOSS BEFORE TAX FROM OPERATING OPERATIONS (AOP 017 - FROM 018 TO 020 + 021 - FROM 022 TO 025 + FROM 026 TO 028)	029	18,885	19,516	(631)
TAX EXPENSE OR INCOME RELATED TO THE PROFIT OR LOSS FROM CONTINUING OPERATIONS	030	4,282	4,282	0
PROFIT OR LOSS AFTER TAX FROM OPERATING OPERATIONS THAT WILL CONTINUE(AOP 029 - 030)	031	14,603	15,234	(631)
PROFIT OR LOSS AFTER TAX FROM OPERATIONS THAT WILL NOT CONTINUE (AOP 033 - 034)	032	631	0	631
PRE-TAX PROFIT OR LOSS FROM OPERATIONS THAT WILL NOT CONTINUE	033	631	0	631
TAX OR BUSINESS-RELATED EXPENSES THAT WILL NOT CONTINUE	034	0	0	0
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 031 + 032; 036 +037)	035	15,234	15,234	0
BELONGS TO MINORITY INTEREST (NON-CONTROLLING INTERESTS)	036	0	0	0
IT BELONGS TO THE OWNERS OF THE PARENT COMPANY	037	15,234	15,234	0

POSITION TITLE	AOP TAG	CNB DECISION	ANNUAL REPORT	DIFFERENCE
OTHER COMPREHENSIVE INCOME REPORT				
PROFIT OR LOSS FOR THE CURRENT YEAR	038	15,234	15,234	0
OTHER COMPREHENSIVE INCOME (AOP 040 + 052)	039	(166)	(166)	0
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP FROM 041 TO 047 + 050 +051)	040	4,476	4,476	0
TANGIBLE ASSETS	041	0	0	0
INTANGIBLE ASSETS	042	0	0	0
ACTUARIAL GAINS OR LOSSES ON EMPLOYER-SPONSORED RETIREMENT PLANS	043	0	0	0
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	044	0	0	0
SHARES OF OTHER RECOGNIZED INCOME AND EXPENSE FROM ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	045	0	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	046	5,182	5,182	0
GAINS OR LOSSES ON ACCOUNTING FOR THE PROTECTION OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER	047	0	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGED ITEM)	048	0	0	0

CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGING INSTRUMENT)	049	0	0	0
CHANGES IN THE FAIR VALUE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ATTRIBUTABLE TO CHANGES IN CREDIT RISK	050	0	0	0
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED	051	(706)	(706)	0
ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS (AOP FROM 053 TO 060)	052	(4,642)	(4,642)	0
PROTECTION OF NET INVESTMENT IN FOREIGN OPERATIONS (EFFECTIVE SHARE)	053	0	0	0
FOREIGN CURRENCY TRANSLATION	054	0	0	0
CASH FLOW HEDGES (EFFECTIVE SHARE)	055	0	0	0
RISK PROTECTION INSTRUMENTS (ELEMENTS NOT SPECIFIED)	056	0	0	0
DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	057	(5,661)	(5,661)	0
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	058	0	0	0
SHARE OF OTHER RECOGNIZED INCOME AND EXPENSE FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	059	0	0	0
INCOME TAX RELATING TO ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS	060	1,019	1,019	0
TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR (AOP 038 +039;062+063)	061	15,068	15,068	0
BELONGS TO MINORITY INTEREST (NON-CONTROLLING INTEREST)	062	0	0	0
IT BELONGS TO THE OWNERS OF THE PARENT COMPANY	063	15,068	15,068	0

COMPARATIVE VIEW OF THE PROFIT AND LOSS STATEMENT AND THE STATEMENT OF OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2020

POSITION TITLE	AOP TAG	CNB DESCISION	ANNUAL REPORT	DIFFERENCE
INTEREST INCOME	001	100,050	100,050	0
(INTEREST EXPENSES)	002	13,518	13,518	0
(EXPENDITURE ON SHARE CAPITAL RETURNED ON REQUEST)	003	0	0	0
DIVIDEND INCOME	004	644	0	644
FEE AND COMMISSION INCOME	005	38,320	38,320	0
(FEE AND COMMISSION EXPENSES)	006	15,228	15,228	0
GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	007	9,981	0	9,981
GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING, NET	008	5,136	0	5,136
GAINS OR LOSSES ON NON-TRADABLE FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	009	4,813	0	4,813
GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	010	0	0	0
GAINS OR LOSSES ON HEDGE ACCOUNTING, NET	011	0	0	0
FOREIGN EXCHANGE DIFFERENCES (PROFIT OR LOSS), NET	012	158	0	158
GAINS OR (-) LOSSES ON DERECOGNITION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES, NET	013	0	0	0
GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	014	(518)	0	(518)
OTHER OPERATING INCOME	015	4,807	24,472	(19,665)
(OTHER OPERATING EXPENSES)	016	6,653	0	6,653
TOTAL INCOME FROM OPERATIONS, NET (AOP 001 – 002 – 003 + 004 + 005 – 006 + FROM 007 TO 014 – 015)	017	127,992	134,096	(6,104)
(ADMINISTRATIVE EXPENDITURE)	018	76,678	87,308	(10,630)
(CASH CONTRIBUTIONS TO RESOLUTION COMMITTEES AND DEPOSIT INSURANCE SCHEMES)	019	6,220	0	6,220
AMORTIZATION	020	9,483	9,483	0
GAINS OR LOSSES ON CHANGES, NET	021	0	0	0
RESERVATIONS OR CANCELLATIONS	022	(154)	0	(154)
IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	023	19,890	22,262	(2,372)
IMPAIRMENT OR ELIMINATION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	024	0	0	0
IMPAIRMENT OR ELIMINATION OF IMPAIRMENT OF NON- FINANCIAL ASSETS	025	0	0	0
NEGATIVE GOODWILL RECOGNIZED IN PROFIT OR LOSS	026	0	0	0

SHARE OF PROFIT OR LOSS FROM INVESTING IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CALCULATED USING THE EQUITY METHOD	027	0	0	0
PROFIT OR LOSS ON NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE THAT DOES NOT QUALIFY AS A GOING CONCERN	028	(717)	0	(717)
PROFIT OR LOSS BEFORE TAX FROM OPERATING OPERATIONS (AOP 017 - FROM 018 TO 020 + 021 - FROM 022 TO 025 + FROM 026 TO 028)	029	15,158	15,043	115
TAX EXPENSE OR INCOME RELATED TO THE PROFIT OR LOSS FROM CONTINUING OPERATIONS	030	3,224	3,224	0
PROFIT OR LOSS AFTER TAX FROM OPERATING OPERATIONS THAT WILL CONTINUE(AOP 029 - 030)	031	11,934	11,819	115
PROFIT OR LOSS AFTER TAX FROM OPERATIONS THAT WILL NOT CONTINUE (AOP 033 - 034)	032	(115)	0	(115)
PRE-TAX PROFIT OR LOSS FROM OPERATIONS THAT WILL NOT CONTINUE	033	(115)	0	(115)
TAX OR BUSINESS-RELATED EXPENSES THAT WILL NOT CONTINUE	034	0	0	0
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 031 + 032; 036 +037)	035	11,819	11,819	0
BELONGS TO MINORITY INTEREST (NON-CONTROLLING INTERESTS)	036	0	0	0
IT BELONGS TO THE OWNERS OF THE PARENT COMPANY	037	11,819	11,819	0

POSITION TITLE	AOP TAG	CNB DECISION	ANNUAL REPORT	DIFFERENCE
OTHER COMPREHENSIVE INCOME REPORT				
PROFIT OR LOSS FOR THE CURRENT YEAR	038	11,819	11,819	0
OTHER COMPREHENSIVE INCOME (AOP 040 + 052)	039	(5,337)	(5,337)	0
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP FROM 041 TO 047 + 050 +051)	040	(1,629)	(1,629)	0
TANGIBLE ASSETS	041	0	0	0
INTANGIBLE ASSETS	042	0	0	0
ACTUARIAL GAINS OR LOSSES ON EMPLOYER-SPONSORED RETIREMENT PLANS	043	0	0	0
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	044	0	0	0
SHARES OF OTHER RECOGNIZED INCOME AND EXPENSE FROM ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	045	0	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	046	(2,160)	(2,160)	0
GAINS OR LOSSES ON ACCOUNTING FOR THE PROTECTION OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER	047	0	0	0
CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGED ITEM)	048	0	0	0

CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGING INSTRUMENT)	049	0	0	0
CHANGES IN THE FAIR VALUE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ATTRIBUTABLE TO CHANGES IN CREDIT RISK	050	0	0	0
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED	051	531	531	0
ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS (AOP FROM 053 TO 060)	052	(3,708)	(3,708)	0
PROTECTION OF NET INVESTMENT IN FOREIGN OPERATIONS (EFFECTIVE SHARE)	053	0	0	0
FOREIGN CURRENCY TRANSLATION	054	0	0	0
CASH FLOW HEDGES (EFFECTIVE SHARE)	055	0	0	0
RISK PROTECTION INSTRUMENTS (ELEMENTS NOT SPECIFIED)	056	0	0	0
DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	057	(4,522)	(4,522)	0
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	058	0	0	0
SHARE OF OTHER RECOGNIZED INCOME AND EXPENSE FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	059	0	0	0
INCOME TAX RELATING TO ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS	060	814	814	0
TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR (AOP 038 +039;062+063)	061	6,482	6,482	0
BELONGS TO MINORITY INTEREST (NON-CONTROLLING INTEREST)	062	0	0	0
IT BELONGS TO THE OWNERS OF THE PARENT COMPANY	063	6,482	6,482	0

Differences in the positions of the profit and loss account and the statement of other comprehensive income for 2021 and 2020 published in the annual financial report in relation to the profit and loss account and the statement of other comprehensive income in accordance with the structure and content prescribed by the CNB to the following positions and reclassifications:

According to the CNB Decision, dividend income is presented in a separate position, while in the Annual Report this income is included in the item Other net operating income.

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss include net realized gains on securities that are measured at fair value through other comprehensive income in the amount of HRK 3,528 thousand (2020: 7,638 thousand) included in the item Other net operating income in the Annual Report and expense on other liabilities in the amount of HRK 33 thousand (2020: HRK 2,342 thousand) included in the administrative expenses in the Annual Report.

In the Annual Report, the total amount of gains on foreign currency sale and purchase transactions in the amount of HRK 5,721 thousand (2020: HRK 5,136 thousand) is included in Other net operating income.

The total amount of HRK 270 thousand (2020: HRK 4,813 thousand) from the adjustment and sale/ purchase of securities within portfolio at fair value through profit or loss is included in the item Other net operating income in the Annual Report.



In accordance with the CNB Decision, foreign exchange differences in the amount of HRK 917 thousand (2020: HRK 158 thousand) are presented in a separate position, of which HRK 4 thousand (2020: HRK 1,284 thousand) relates to foreign exchange losses on adjustments included in the item Impairment and provisioning costs in the Annual Report and gains in the amount of HRK 921 thousand (2020: HRK 1,442 thousand) from other net exchange differences included in the item Other net operating income in the Annual Report.

Net gains on derecognition of non-financial assets in the amount of HRK 569 thousand (2020: HRK 518 thousand) relate to impairment losses on real estate investments and are included in the item Impairment costs and provisions in the Annual report.

Other operating expenses include other non-interest expenses such as taxes, contributions, membership fees and similar expenses in the amount of HRK 6,204 thousand (2020: HRK 6,567 thousand) included in the item Administrative expenses in the Annual Report as well as expense of HRK 342 thousand (2020: HRK 86 thousand) related to the unrecorded value of tangible assets included in the item Other net operating income in the Annual Report.

Cash contributions to resolution committees and deposit insurance systems includes the costs of taxes, contributions and similar expenses in the amount of HRK 113 thousand (2020: HRK 113 thousand), which are included in the item Administrative expenses. In 2021, the Bank does not have the costs of savings deposit insurance premiums, and in 2020 these costs amounted to HRK 6,107 thousand and were included in the item Administrative expenses.

According to the CNB Decision, the costs of provisions for contingent liabilities are disclosed in a separate item, while in the annual report they are disclosed in the item Impairment costs and provisions.

Revenues from the collection of written-off receivables from previous years in the amount of HRK 9 thousand (2020: HRK 8 thousand) are included, according to the CNB Decision, in the position Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss, and in the annual report these revenues are included in Other net operating income.

In accordance with the CNB Decision, the impairment of acquired assets held for sale in the amount of HRK 334 thousand (2020: HRK 717 thousand) is stated in a separate position, while in the Annual Report this impairment is included in the Impairment and provisioning costs.

According to the CNB Decision, the item Profit or loss before tax from operations that will not continue includes extraordinary income in the amount of HRK 719 thousand (2020: HRK 70 thousand), which in the annual report is included in Other net operating income and other non-standard expenses in the amount of HRK 88 thousand (2020: HRK 185 thousand), which are included in the annual report in Administrative operating expenses.

Inconsistencies within positions of the Statement of cash flows in the Annual Report relative to Statement of cash flows prepared in accordance with the CNB Decision are conditioned by a different methodology and arise from different structures and contents, that is, differences in the classification of individual positions of assets, liabilities and capital. The same applies to the Statement of changes in equity.

APPENDIX II - OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Law on Credit Institutions, Article 164, Podravska Bank publishes the following information.

The Bank provides banking and other financial services in the Republic of Croatia in accordance with the Law, in particular:

1. receiving deposits or other repayments from the public and granting loans from these funds for your own account,
2. receiving deposits or other repayable funds,
3. granting of loans and borrowings, including consumer credits and loans and mortgage credits and loans, if permitted by special law, and the financing of commercial transactions, including export financing on a discounted basis and without recourse to long-term overdue claims secured by financial instruments (forfeiting),
4. purchase of receivables with or without recourse (factoring),
5. financial leasing (leasing),
6. issuing guarantees or other warranties,
7. trading for own account or for account of the client:
 - money market instruments,
 - transferable securities,
 - foreign exchange, including exchange transactions,
 - financial futures and options,
 - currency and interest rate instruments,
8. payment services, as follows:
 - 1) services that allow cash to be deposited into a payment account as well as all the procedures required to maintain a payment account;
 - 2) services that enable cash withdrawals from the payment account as well as all the procedures required to maintain the payment account;
 - 3) payment transaction execution services, including the transfer of funds to a payment account with a payment service user or another payment service provider:
 - execution of direct debits, including one-off direct debits,
 - execution of payment transactions by payment cards or similar means,
 - execution of credit transfers, including standing orders;
 - 4) payment transaction execution services in which funds are covered by a credit line for a payment service user:
 - execution of direct debits, including one-off direct debits,
 - execution of payment transactions by payment cards or similar means,
 - execution of credit transfers, including standing orders;
 - 5) services of issuing and / or accepting payment instruments;
 - 6) money delivery services,
9. services related to crediting activities, such as collecting data, preparation of analysis and providing information on the creditworthiness of legal and natural persons carrying out their business independently;
10. issuing and managing other payment instruments if the provision of these services is not considered to be payment service provision in accordance with a separate law,
11. renting safes,

12. mediation in concluding money market transactions,
13. advising legal entities on capital structure, business strategy and similar issues and providing services related to business combinations and acquisition of shares and interests in other companies,
14. issuing of electronic money,
15. investment and ancillary services and activities prescribed by a special law governing the capital market, as follows:
 - receiving and transferring orders regarding one or more financial instruments
 - execution of orders for client's account
 - trading for own account
 - portfolio management
 - investment consulting
 - services for the implementation of offers, i.e. sale of financial instruments subject to the repurchase obligation
 - services for the implementation of the offering or sale of financial instruments without the repurchase obligation
 - storage and administration of financial instruments for the client's account, including custody and related services such as cash management and insurance instruments
 - granting credits or loans to investor to enable it to conclude a transaction with one or more financial instruments, if the transaction involves the company granting the loan or credit
 - advisory on capital structure, business strategies and related issues, as well as consulting and services related to mergers and acquisitions of companies
 - foreign exchange services, if they are related to the provision of investment services
 - investment research and financial analysis, as well as other recommendations related to transactions involving financial instruments
 - services related to the services of implementation of the offer, i.e. sale of financial instruments with the repurchase obligation
 - investment services and activities and ancillary services related to the basic assets of the derivatives referred to in Article 3, paragraph 1, item 2, subparagraph d), indent 2, 3, 4 and 7 of the Capital Market Act when these investment services and activities are supplemented by investment services or ancillary services,
16. performing activities related to the sale of insurance policies in accordance with the regulations governing insurance.

	2021	2020
TOTAL INCOME	133,244	134,096
PROFIT BEFORE TAX	19,516	15,043
INCOME TAX	(4,282)	(3,224)
NUMBER OF WORKERS BASED ON FULL-TIME EQUIVALENT (PAID WORKING HOURS) PER YEAR	185	182

In 2021 and 2020, the Bank did not receive any public subsidies.

